

Bulldog Investment Company

152,557 sales | ★★★★★

## BIC Personalized Bath Toy Rubber Ducky Wet Fun Time

Bestseller

**\$19.98+** ~~\$24.98+~~

✓ In stock

You save \$5.00 (20%)

Sale ends in 22 hours

Style

Santi's Favorite

Primary color

Select a color

Add your personalization

Tell Us:

1. What you want engraved
2. What design you'd like (See Item Listing Pics)
3. Which piece you want your engravings on if you are ordering a set

Example: Mitchell - Design 4

NOTE\*\*\* We are not able to engrave the torch or tin.



24,176 reviews ★★★★★

★ Buyers are raving! Multiple people gave 5-star reviews to this shop in the past 7 days.

**How do they make money?**

**How is the Company Different?**

**What Protects the Company Position?**

**Is this a Quality Business?**

**Who Makes This Possible?**

**What Could Disrupt the Company's Progress?**

**How will the Company Grow? Sustainable?**

**What Makes the Company an Attractive Investment?**

**Take Action, Do Nothing.**



The image features the word "Etsy" in a large, orange, serif font. The text is positioned on the left side of the frame. The background is a vibrant blue with a pattern of white, wavy lines that resemble ripples on water, creating a dynamic and textured effect. The lighting is bright, highlighting the peaks of the ripples.

# Etsy

The background is an abstract composition of colors. The left side is dominated by a deep blue, while the right side transitions into bright orange and yellow. There are various brushstrokes and textures throughout. A prominent wavy line, colored in shades of orange and yellow, runs horizontally across the middle of the image, separating the title from the subtitle.

# Business Breakdown

How does Etsy Make  
Money?

# What is Etsy?



Etsy

Etsy



Reverb



depop



elo7





# Reverb



- Acquired in 2019 for \$275M
- New, used, and vintage instruments
- Millennials and Gen X Men
- US, UK, Canada, France, Germany, and Australia
- Sold 3M instruments in 2021
- Fees increased from 3.5% to 5%



# depop



- Acquired in June 2021 for \$1.68B
- Peer-to-peer shopping app
  - (similar to a social media app)
- Fashion resell
- Gen Z Men and Women
  - 90% under are of 26
- 30M users in 147 countries
- Main countries the UK, Australia, and the US
- Charges a 10% transaction fee



# elo7



- Acquired in June 2021 for \$271M
- Brazilian online marketplace
- The Etsy of Latin America
- Millennials and Gen X Women
- 1.9M buyers
- 56K active sellers
- 8M items for sale

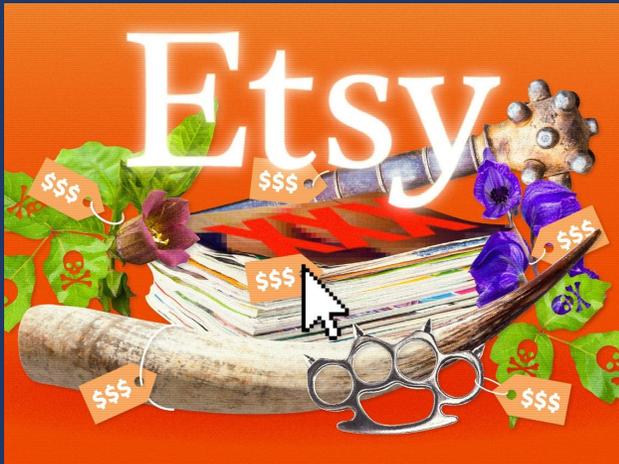


# Etsy



- Handmade, vintage, and crafted goods
- Millennials and Gen X Women
- The US, UK, Germany, Canada, Australia, France, and India
- 88% of buyers agreed Etsy has items you can't find anywhere else
- Sellers hobbyists to professional artist
- 4.4M sellers
- 89M buyers

# How does Etsy make money?



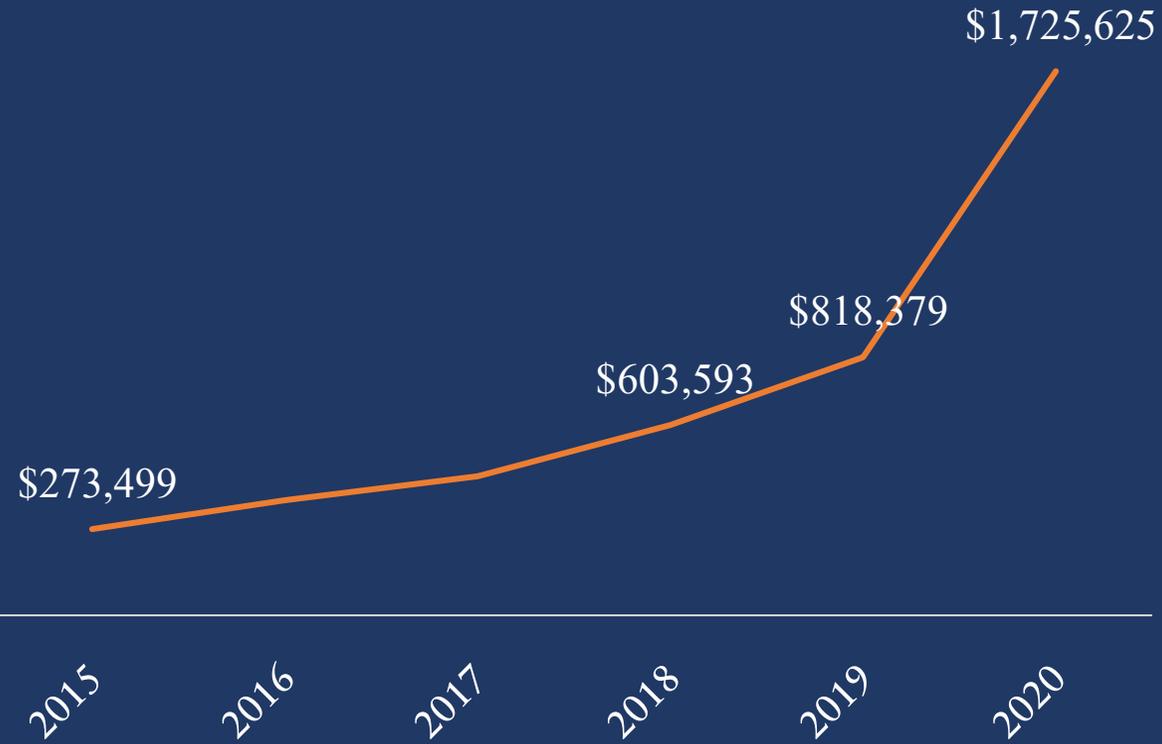
## Marketplace Revenue (Required Fees)

- Listing Fee \$0.20
- Transactions Fee 5%
- Offsite Ads Transaction Fee 12%-15%

## Services Revenue (Optional Value-Added Services)

- Advertising – Etsy Ads your budget
- Shipping Labels
- Etsy Subscription Tools \$10/month

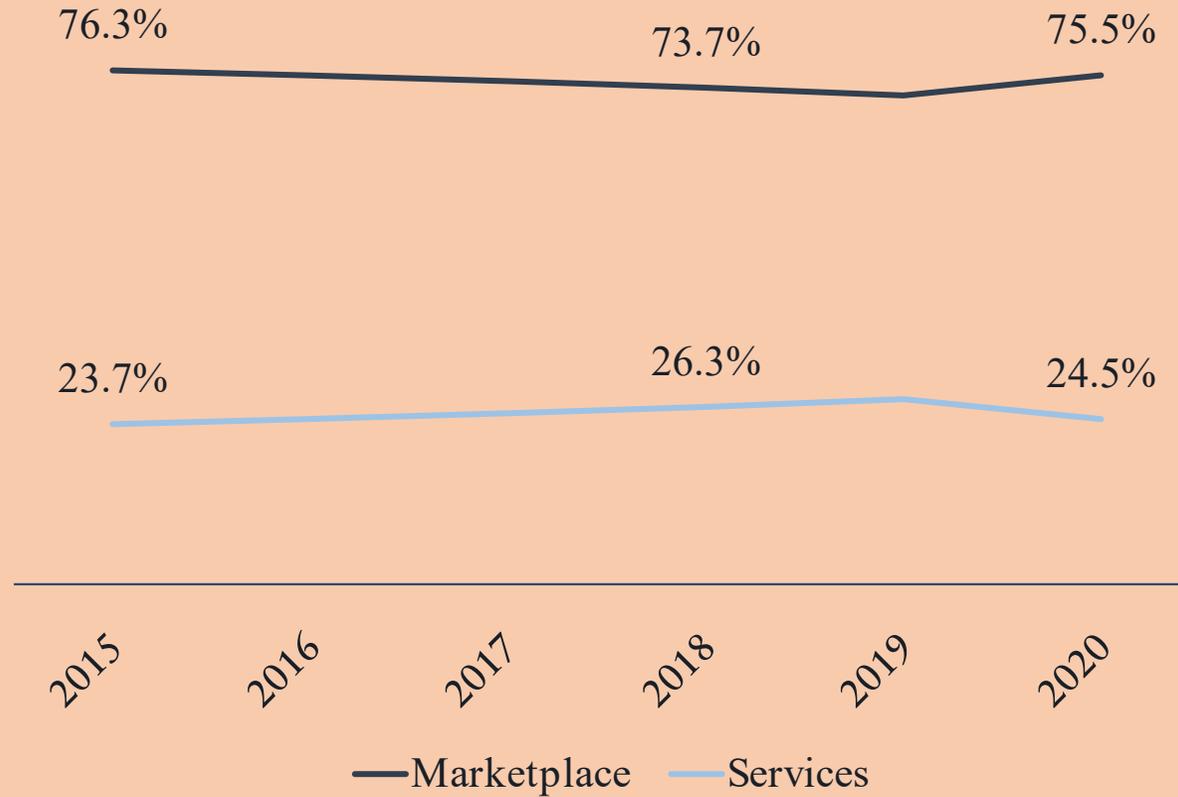
# Total Revenue (in thousands)



5-year CAGR

- 44.5%

# Revenue Breakdown

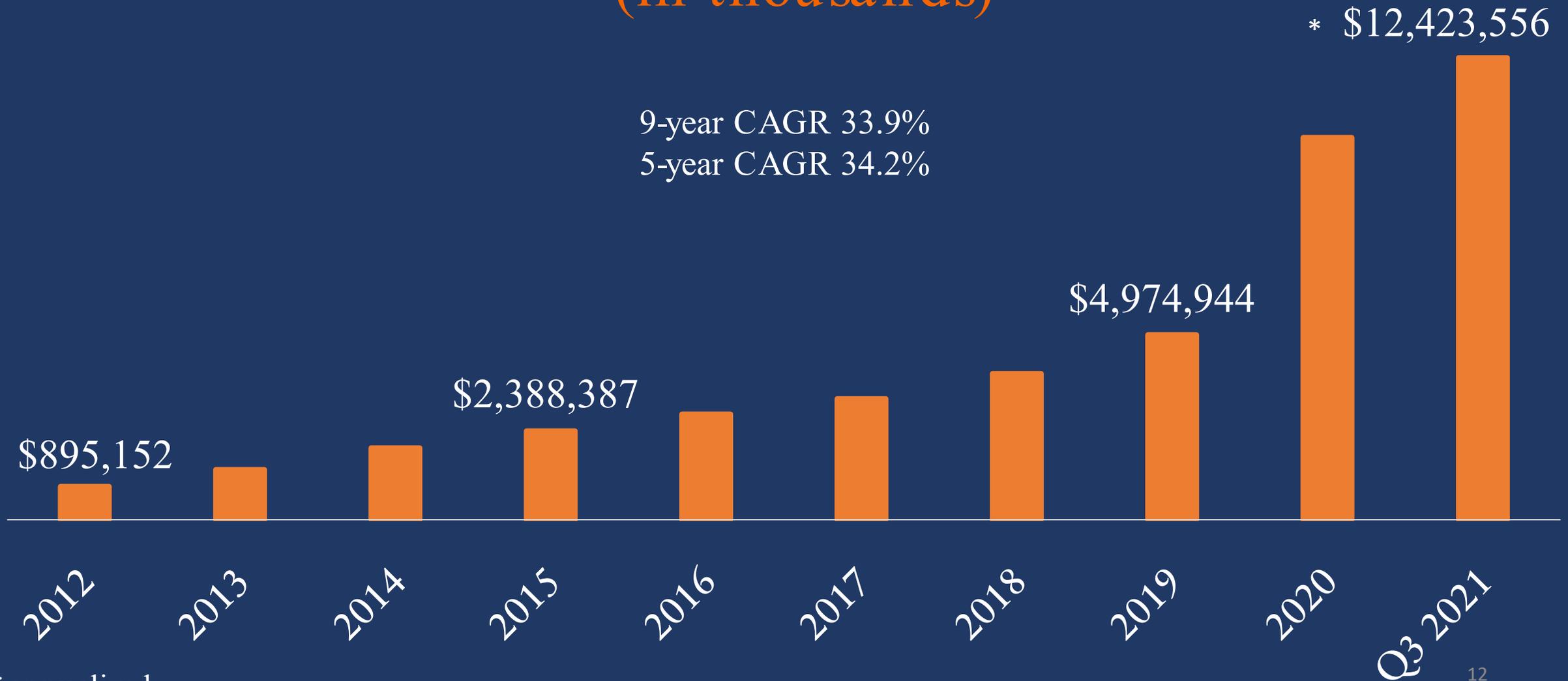


5-year CAGR

- Marketplace 44.5%
- Services 45.4%

# Gross Merchandise Sales (GMS)

(in thousands)



\* annualized

# Take Rate (Marketplace sales / GMS)



2015

2016

2017

2018

2019

2020

# GMS per Active Buyer



2012

2013

2014

2015

2016

2017

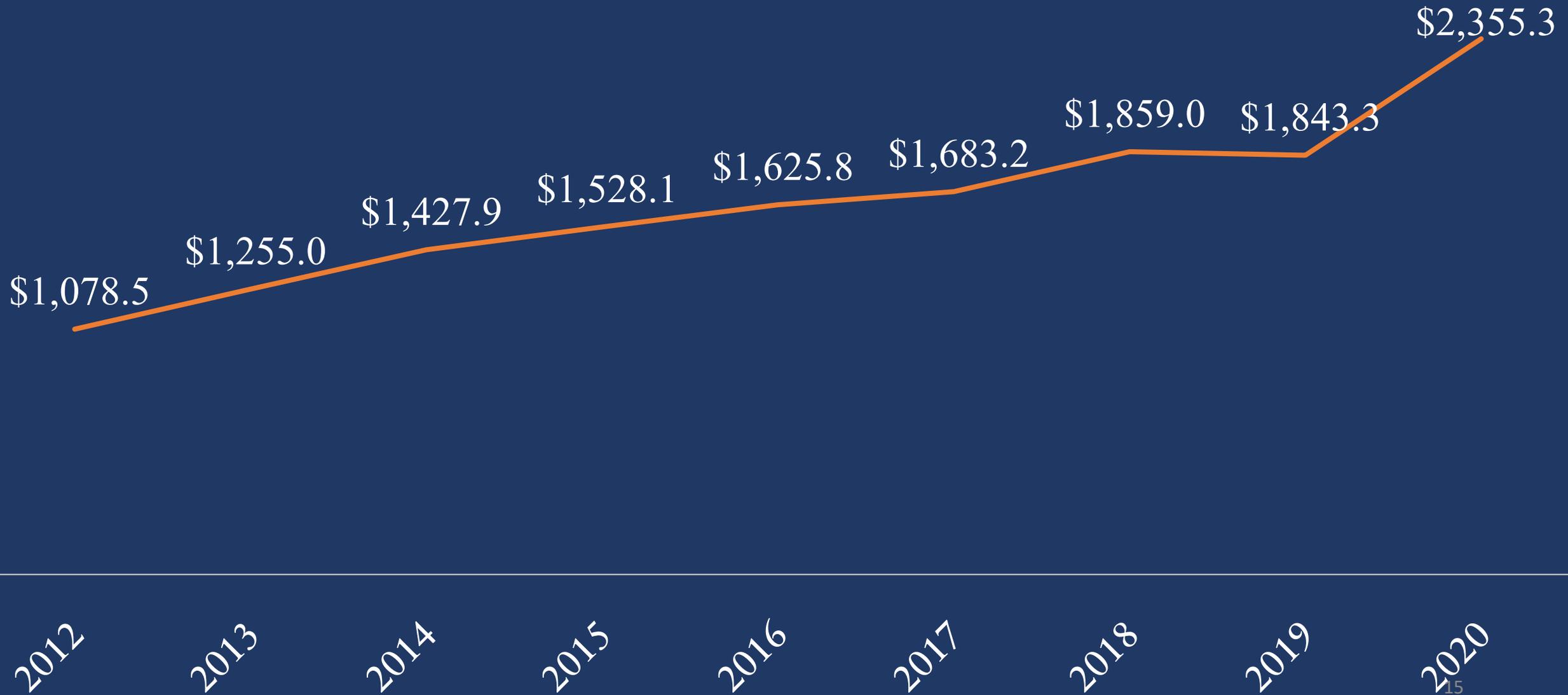
2018

2019

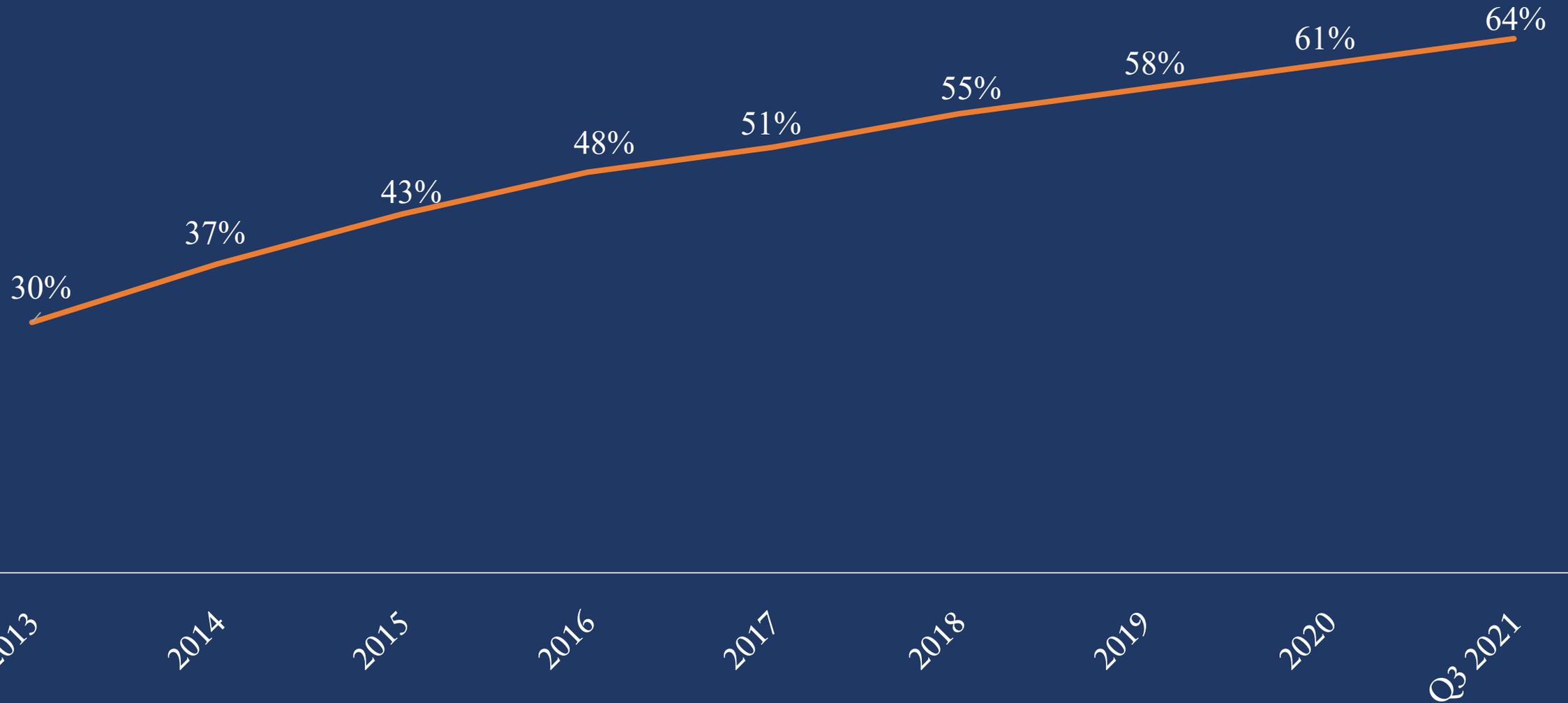
2020

Q3 2021

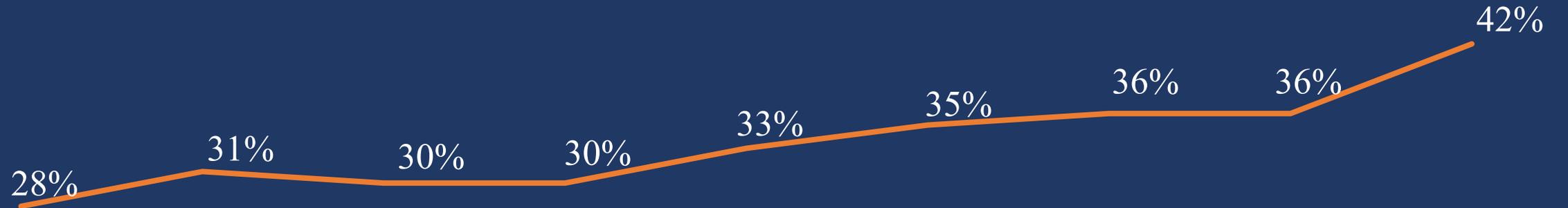
# GMS per Active Seller



# Percent of Mobile GMS



# Percent International GMS



2013

2014

2015

2016

2017

2018

2019

2020

Q3 2021

# Active Sellers (in thousands)

9-year CAGR 27.6%  
5-year CAGR 33.7%



# Seller Stats

## 2021 Survey

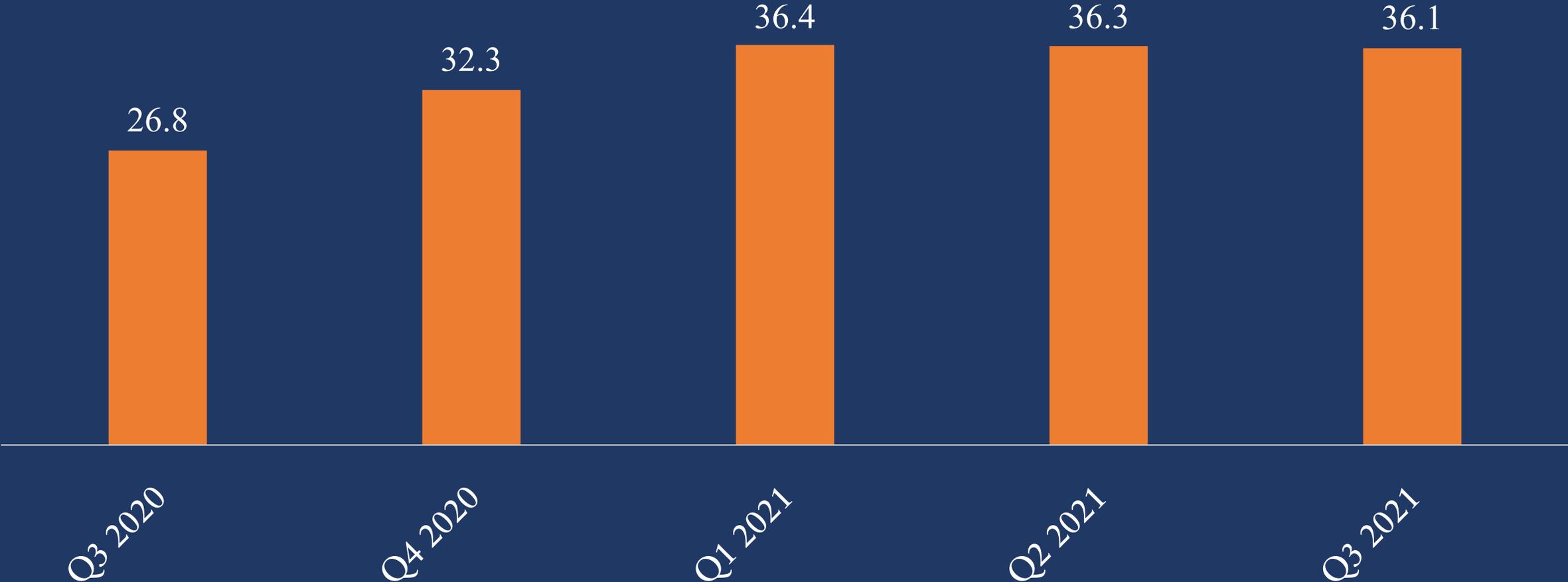
- 81% Identify As Women
- 69% Consider Their Etsy Shop To Be A Business
- 97% Run Their Shops From Their Homes
- 82% Aspire To Grow Their Sales In The Future
- 65% Started Their Etsy Shop As A Way To Supplement Income
- 39% Of Etsy Sellers Were Pursuing Their Creative Business As Their Sole Occupation
- 42.5% Of 2017 Active Sellers Are Still Active
- 55% Have Stores Outside Of Etsy

# Active Buyers (in thousands)



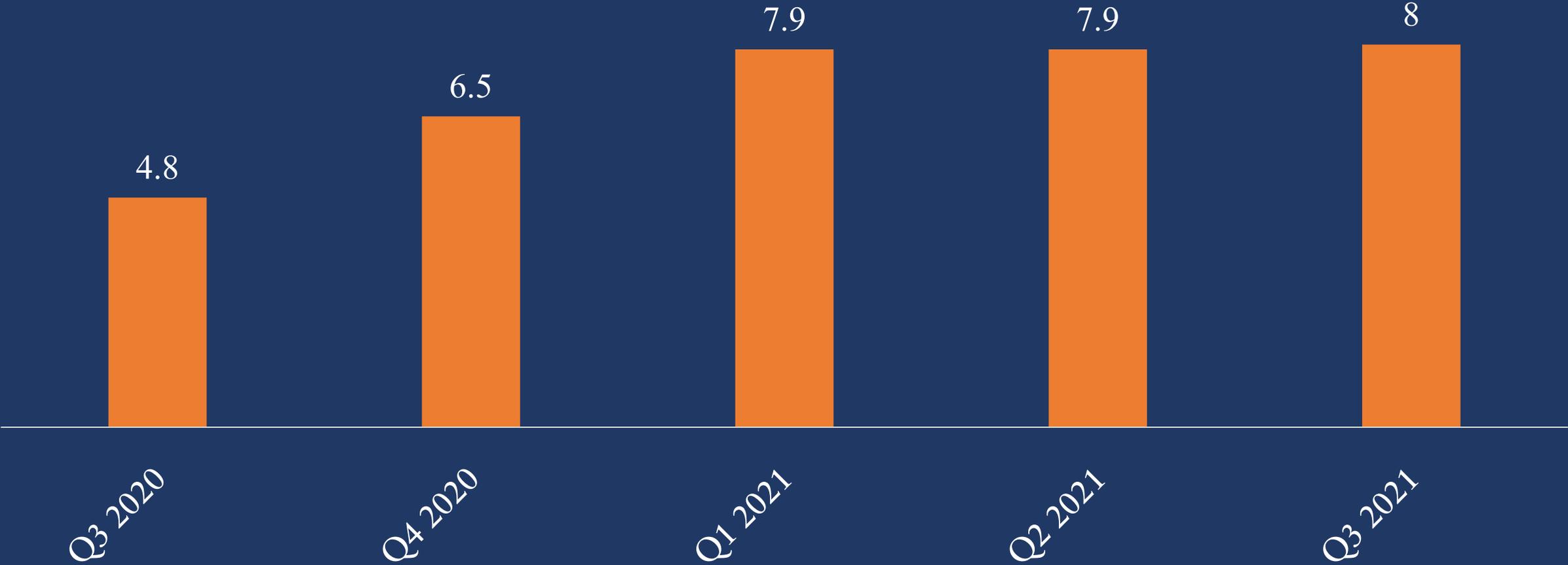
Quarterly

# Repeat Buyers (in millions)

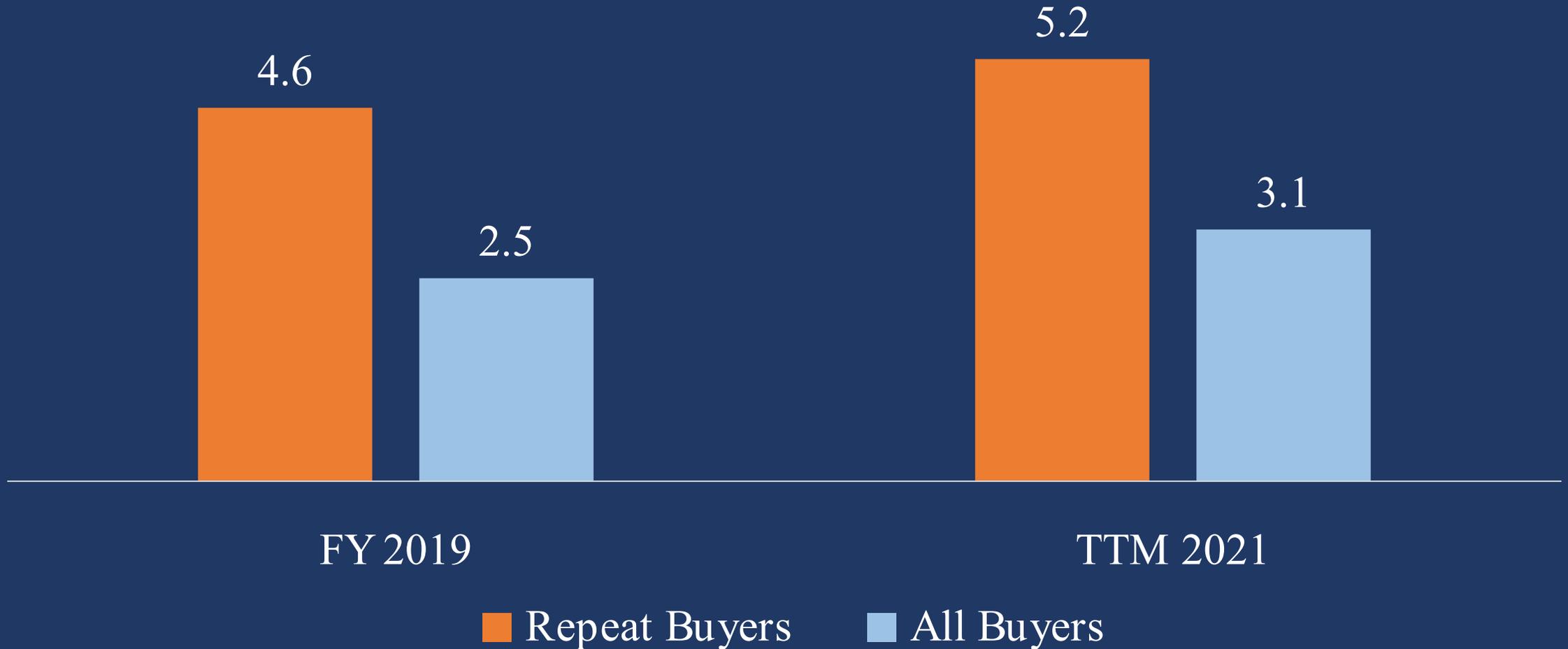


Quarterly

# Habitual Buyers (in millions)



# Average Purchase Days





# Marketplace Competition

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How is Etsy Different?

# Core Competitors



# Etsy



# Market Cap

Etsy



\$16.5B

ebay



\$36.1B



\$103.4B



\$1,430B

# Revenue (in millions)

Etsy

\$2,229



\$4,210

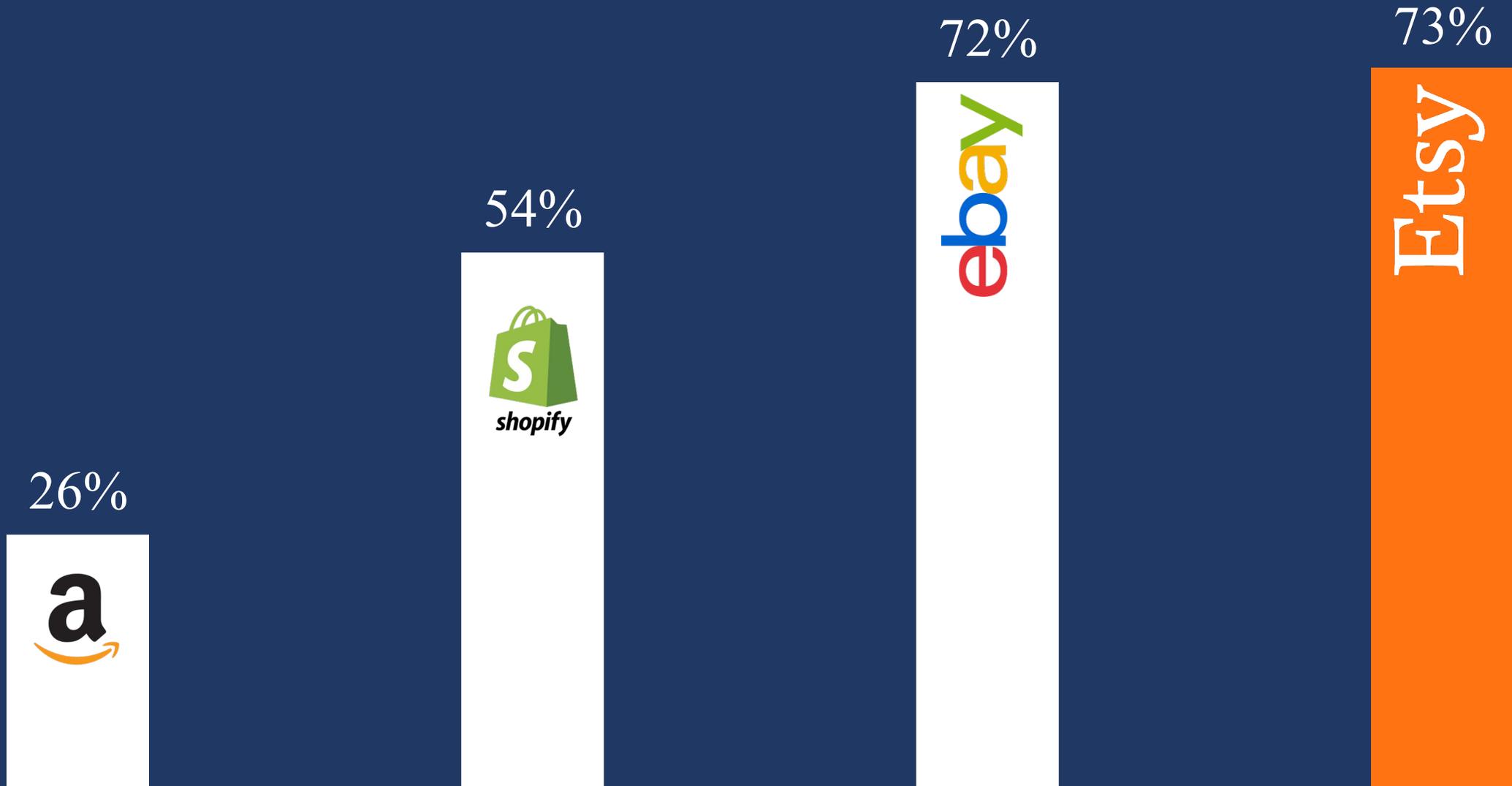
ebay

\$12,047

\$457,965



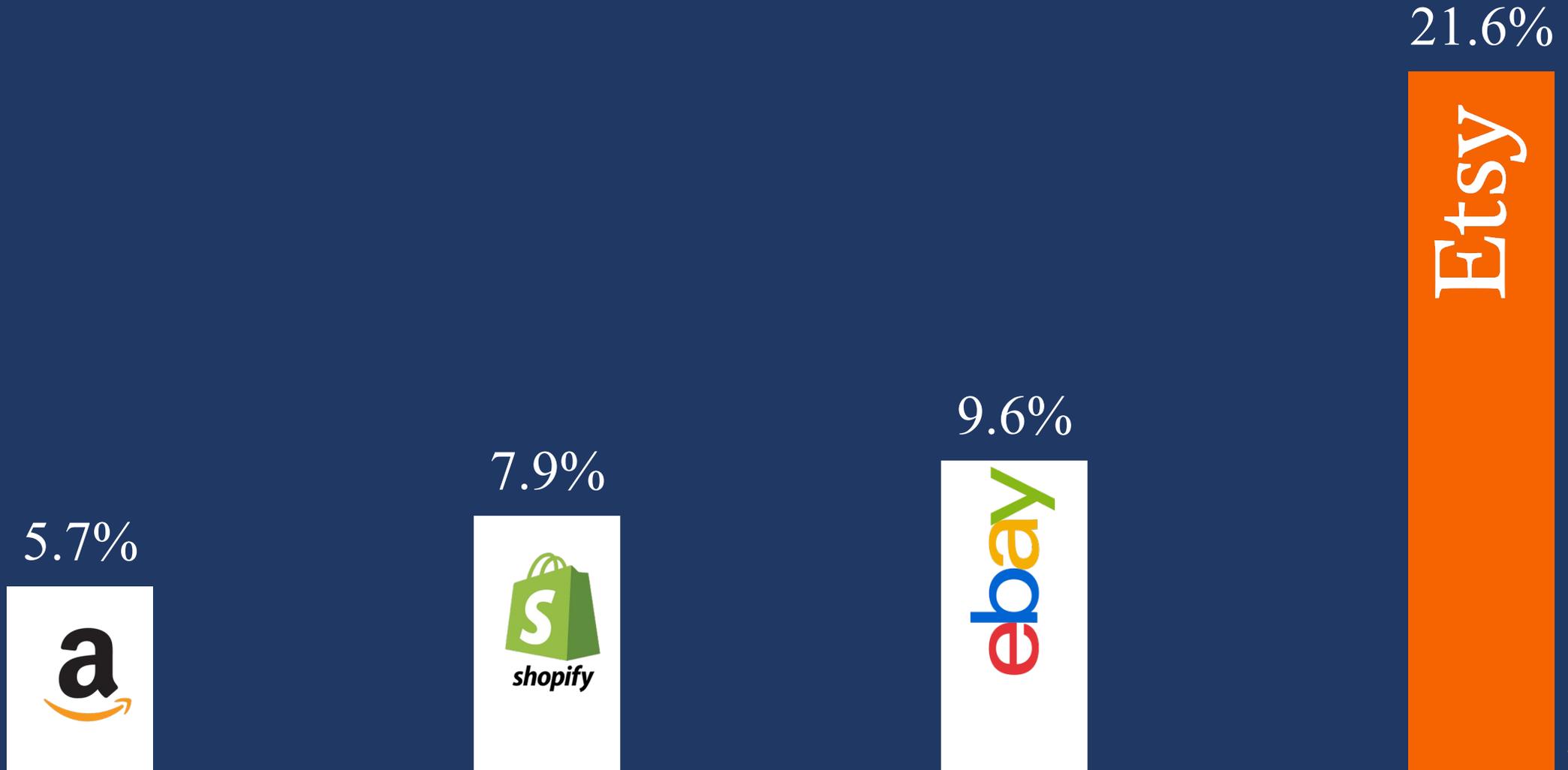
# Gross Margin



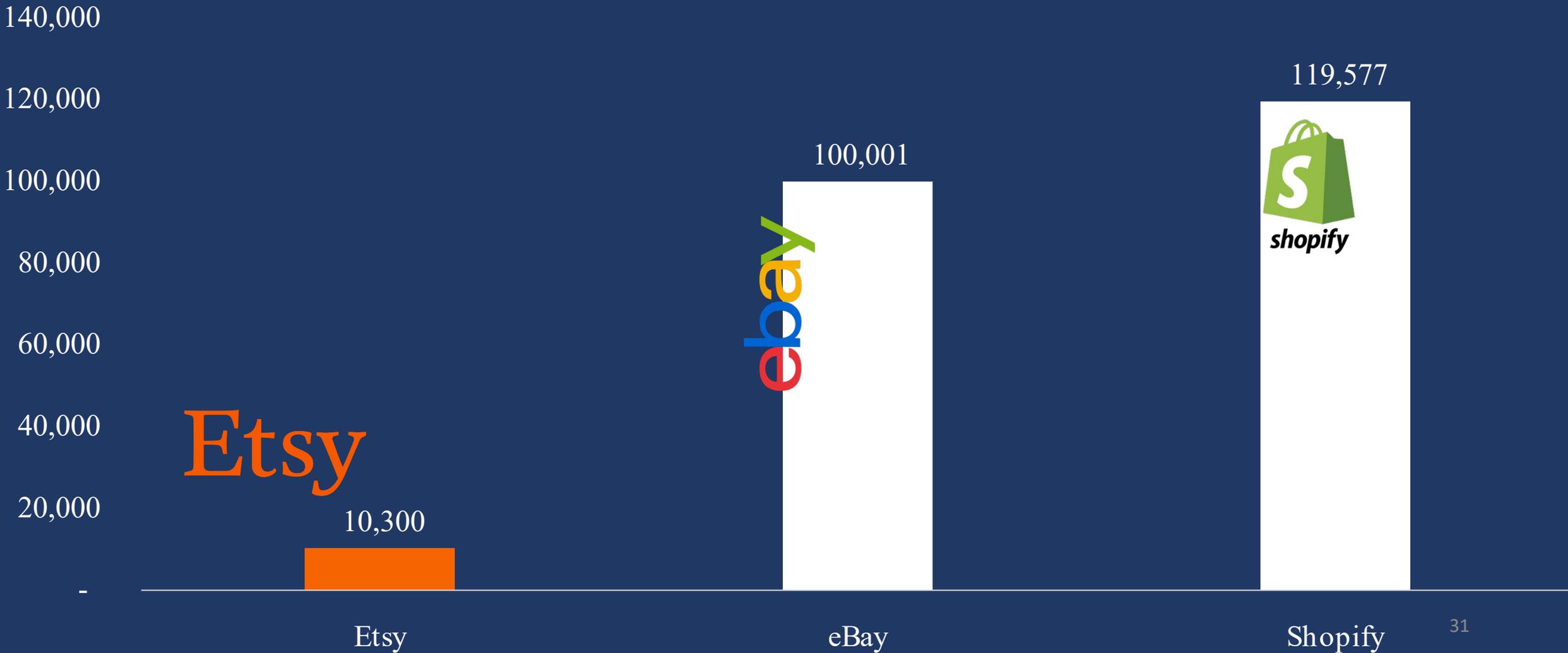
# Operating Margin



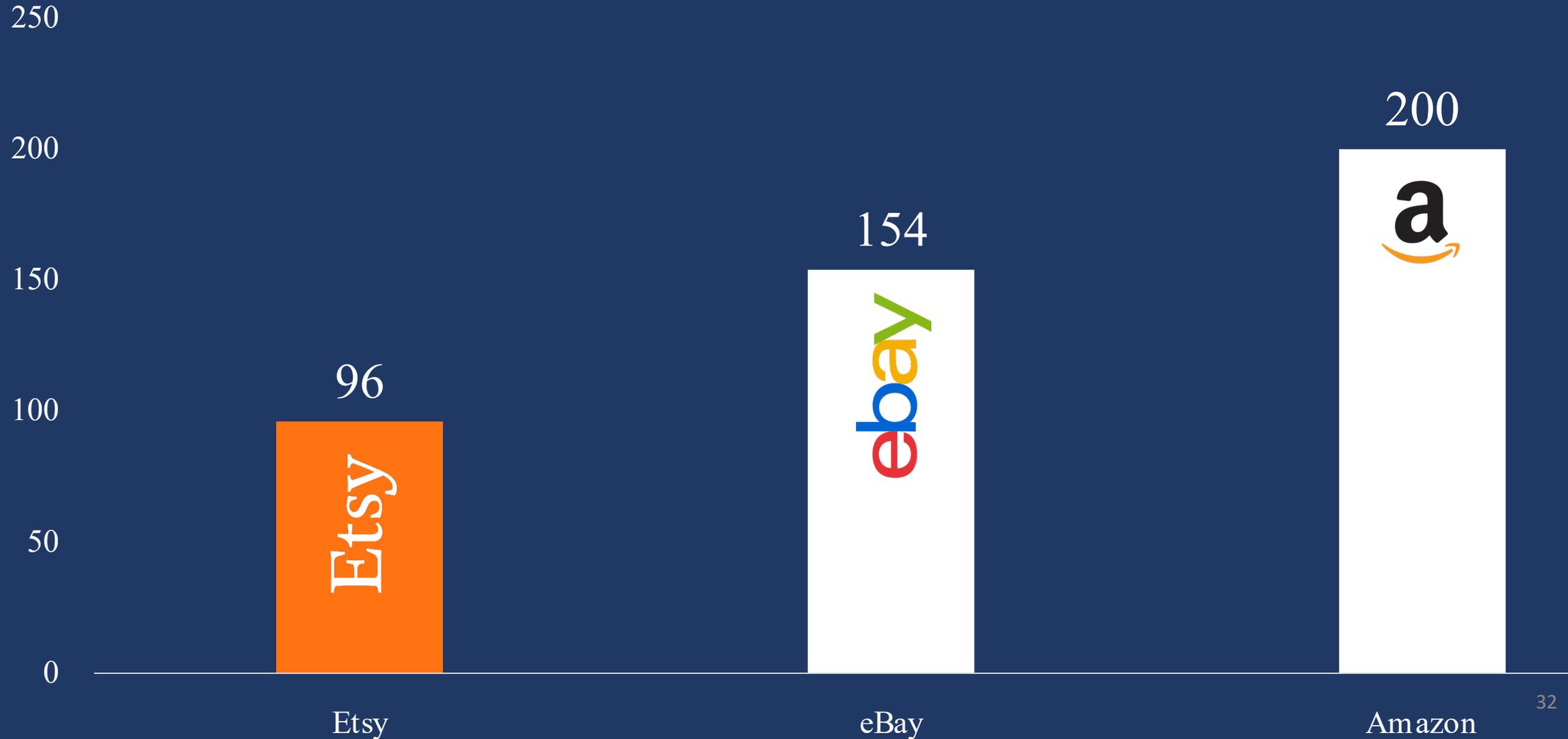
# Net Margin



# Gross Merchandise Volume (GMV) (in millions)



# Active Buyers



# Active Sellers (in millions)



Etsy

eBay

# Fee Structure

## Etsy

- \$0.20/listing
- 5% of each item sold

## • eBay\*\*

- Clothing listing
- Jewelry & watches – \$0.55 per listing + 15% of sale amount
- Art – 5% of sale amount

\*\*first 250 listings free

## Shopify

- Monthly Plan: \$29-\$299/mo.

## Amazon

\$39.99/mo. + referral fee

- Referral fee: 8-20% depending on category
- Amazon Handmade: 15% transaction fee

## Facebook Marketplace

- 5% of sales price per shipment, \$0.40 flat fee if lower than \$8.00

Mr. Chaney! I have a question...



What if I want to start my own Etsy Shop? What do my fees look like?



# SANTI'S STORE

SELLER



# SANTI'S STORE

SELLER

PRODUCT



# SANTI'S STORE

SELLER

PRODUCT

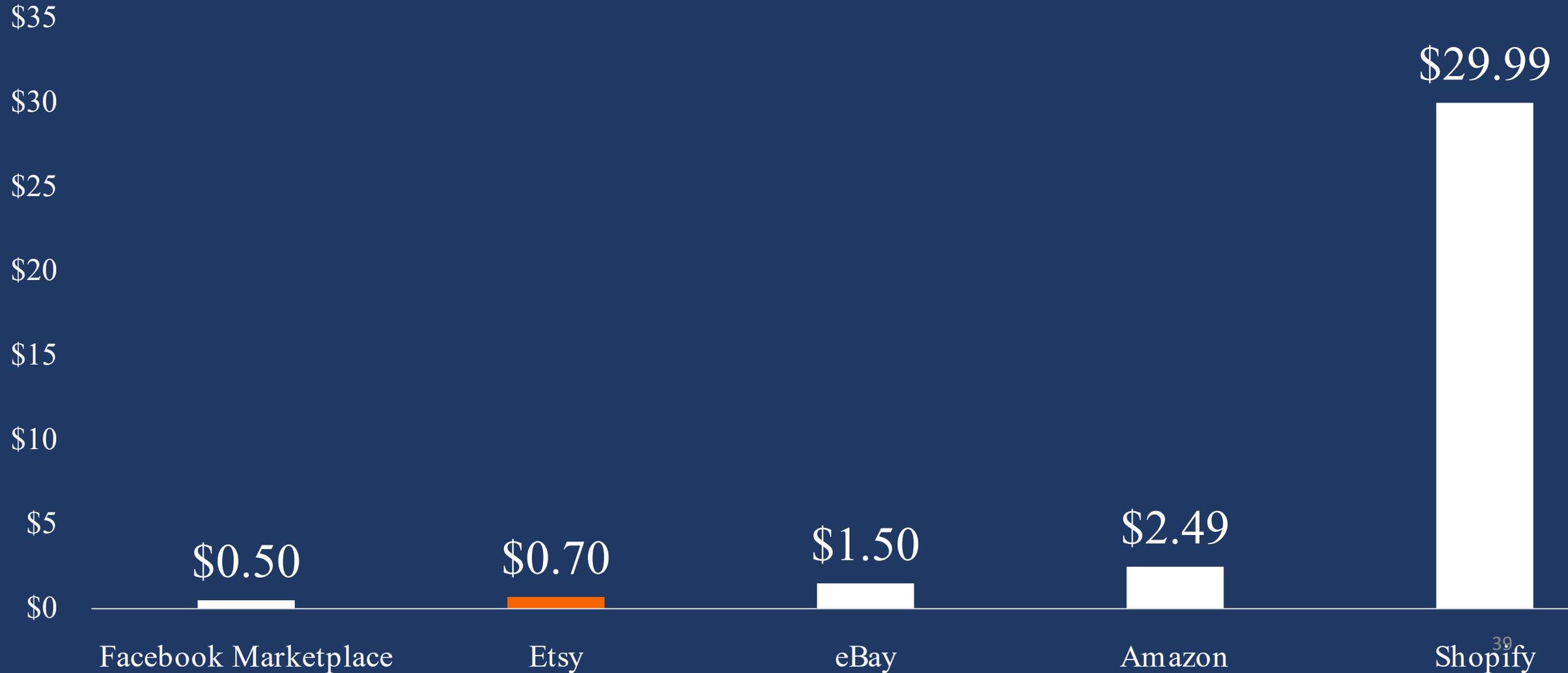
PRICE



\$10

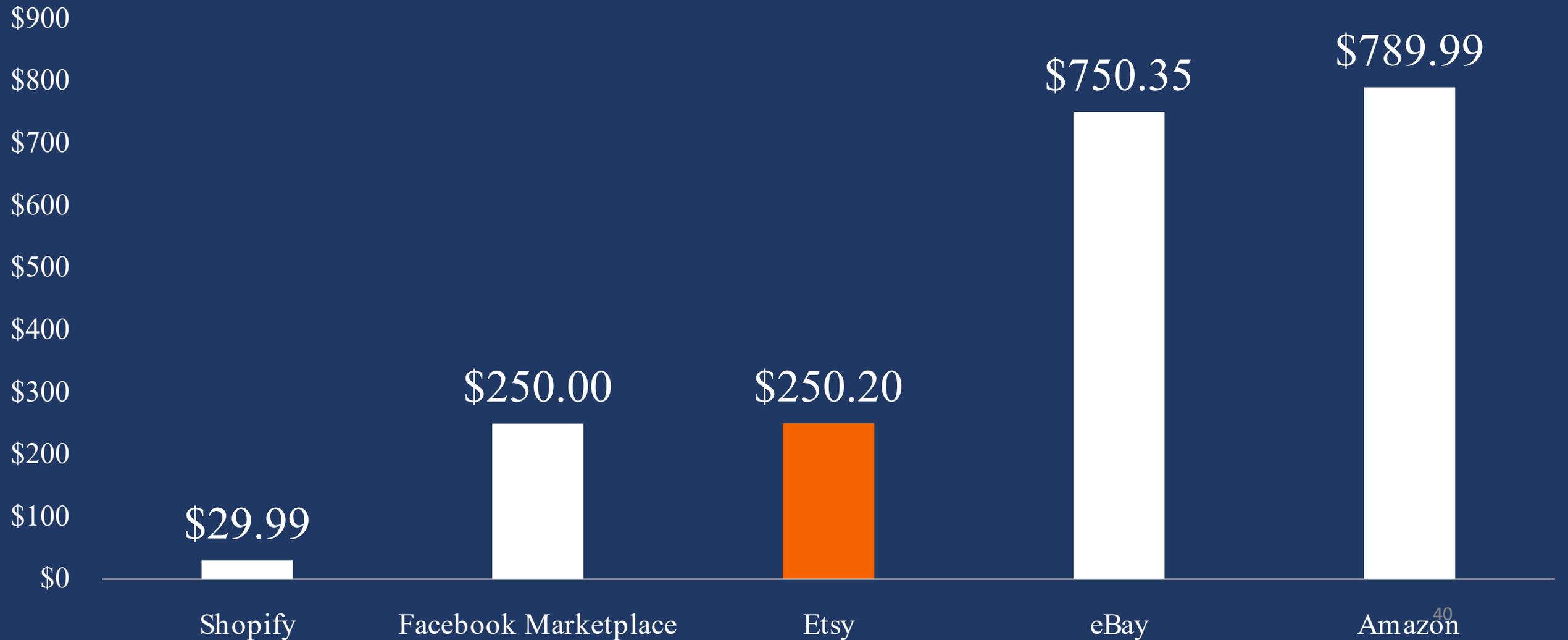
# “The Casual Seller”

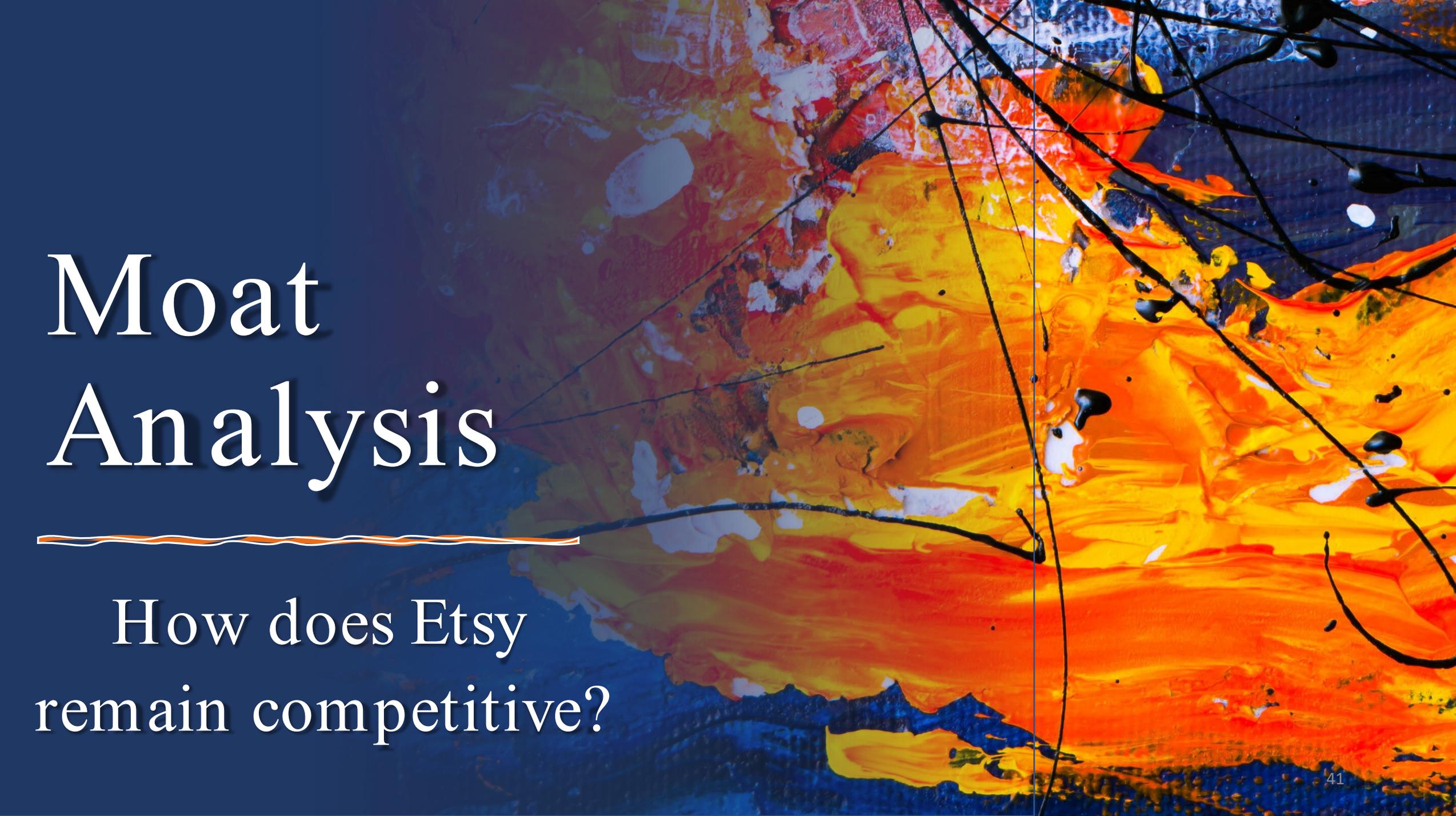
## If Seller Sells 1 Unit @ \$10



# The “More-than-a-Hobby” Volume Seller

## 500 Units @ \$10/each





# Moat Analysis

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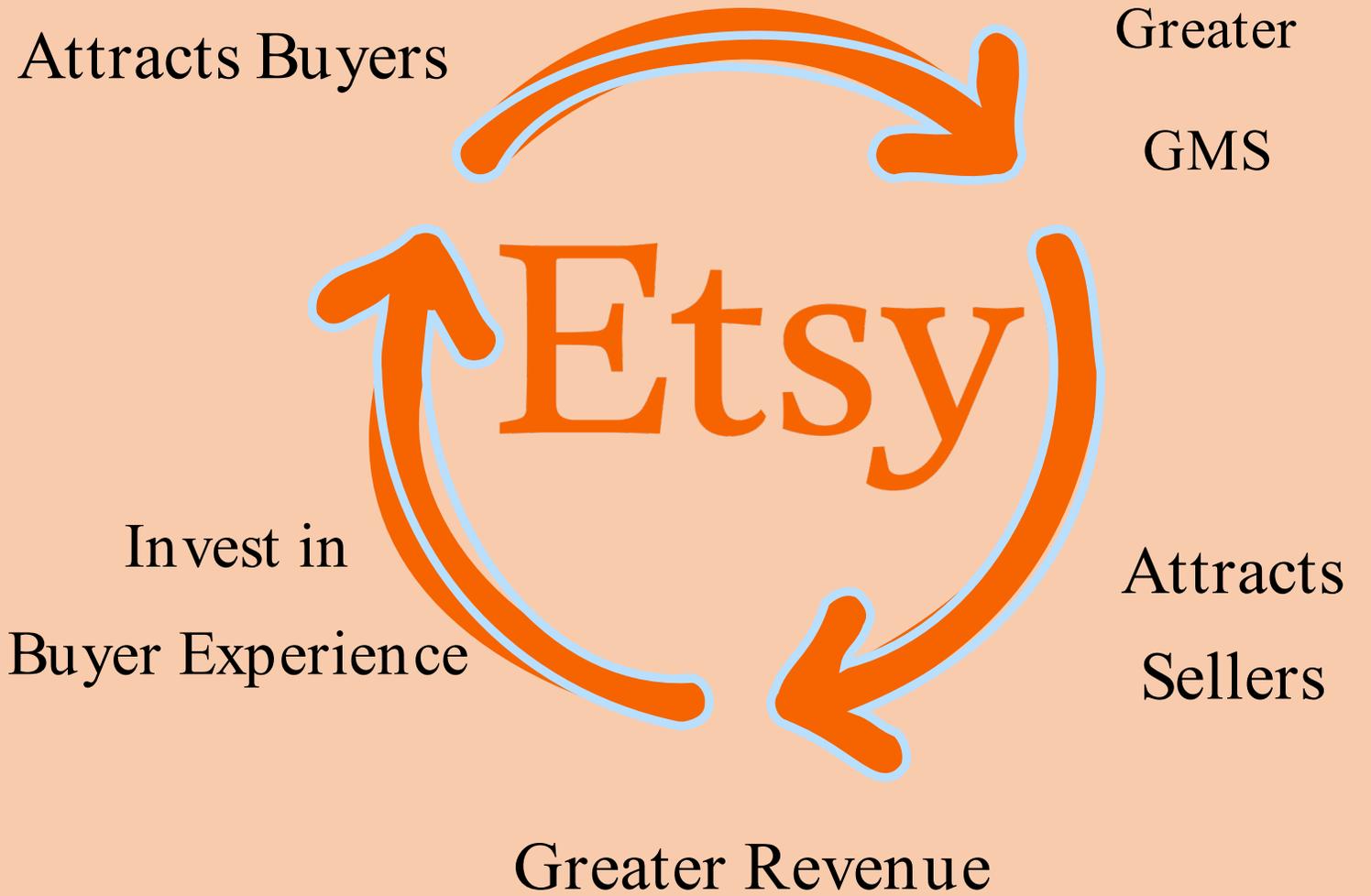
How does Etsy  
remain competitive?

# What is an Economic Moat?

- Protects a company from Competition
- Four Sources of an Economic Moat
  - Intangible Assets
  - Switching Costs
  - Cost Advantages
    - Scale-Driven & Process Based
  - Network Effect



# Network Effect



# Scale-Driven Advantages

- Buyers want Sellers
  - Reduced Search Costs
  - Improved Product Discovery
- Seller want Buyers
  - Quickened Inventory Turnover

# More Advantages

- Data Use & Machine Learning
  - Example: ‘Our Picks for you’
  - Ranking Listings
- Developing Sellers
  - Advertising Management
- Human Twist
  - Reduces Uncertainty

# Financial & Company History

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Is Etsy a Quality Business?  
Who Makes This Possible?

# Josh Silverman



- Skype, Shopping.com and American Express

# Rachel Glaser

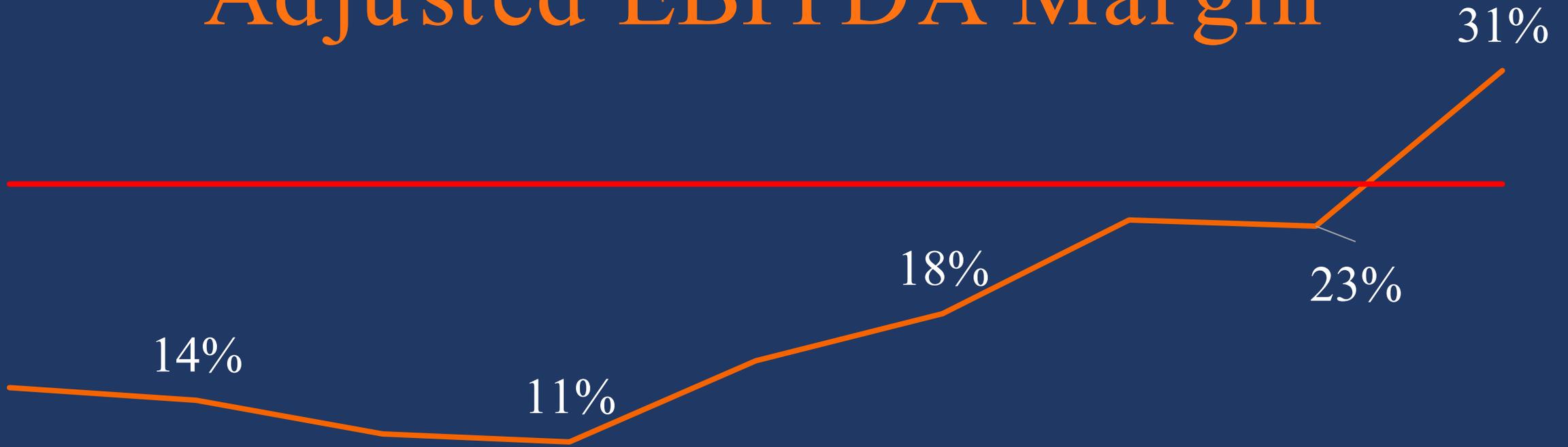


- 30 years of financial experience
- CFO of Leaf Group

# Executive Compensation

Financial Performance Metric	Weight
• Gross Merchandise Sales	40%
• Revenue	30%
• Adjusted EBITDA Margin	30%
	100%

# Adjusted EBITDA Margin



2012

2013

2014

2015

2016

2017

2018

2019

2020

# Adjusted EBITDA

5-year CAGR = 78%  
9-year CAGR = 55%

\$10,669

\$80,009

\$549,116

2012

2013

2014

2015

2016

2017

2018

2019

2020



# Josh Silverman

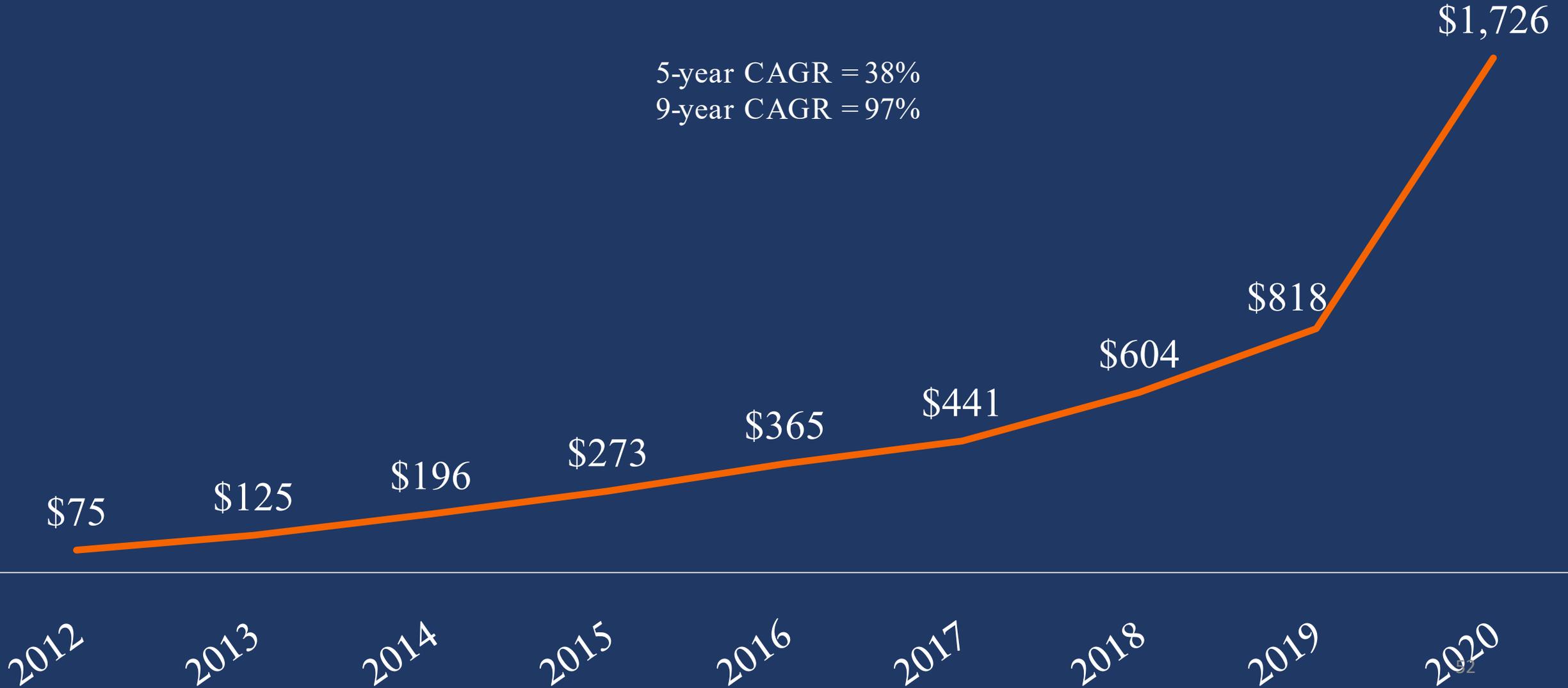


- Expenses Rising Faster Than Revenue
- 2016: 389M In Revenues With A \$(30)M Net Loss
- Identified Projects
- “Too many managers, and too many managers had too few reports”
- Expanding network → Monetization
- “Keep Commerce Human”

# Revenue

in millions

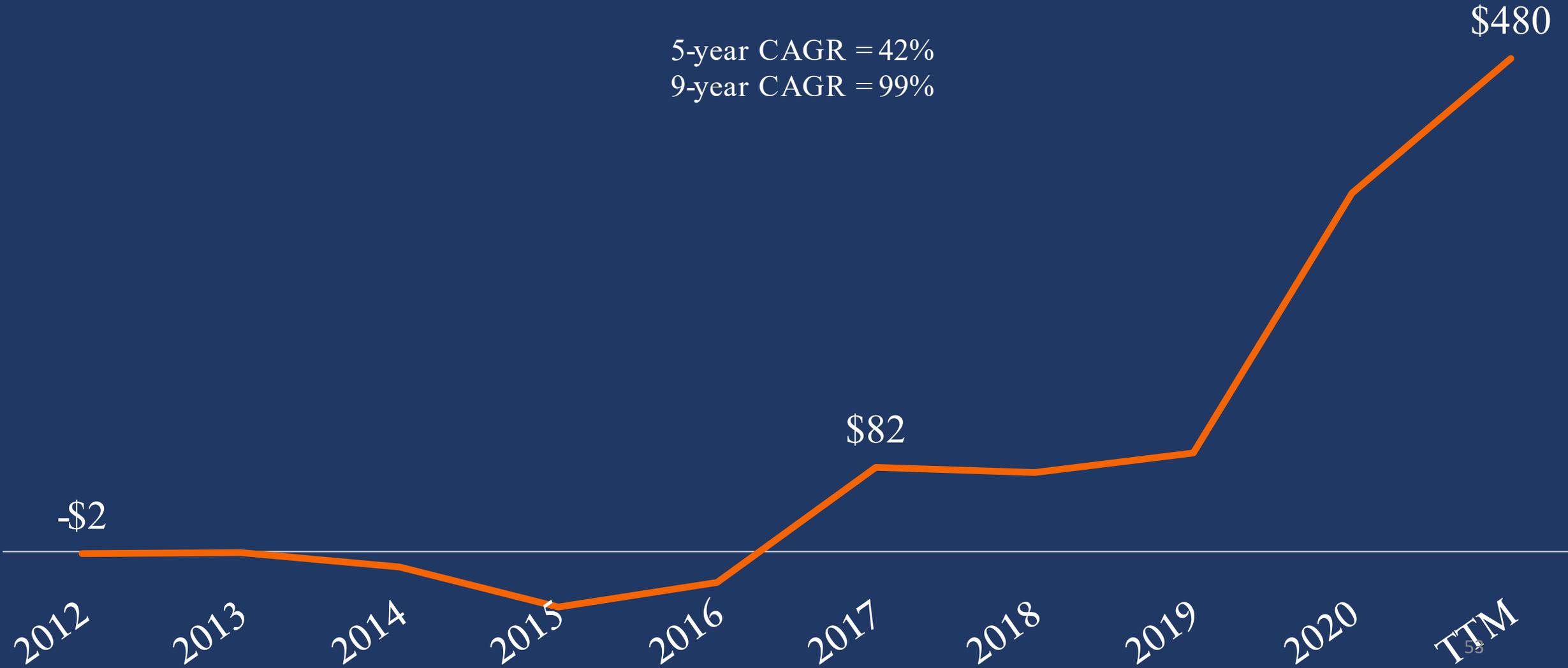
5-year CAGR = 38%  
9-year CAGR = 97%



# Net Income

in millions

5-year CAGR = 42%  
9-year CAGR = 99%



# Earnings per Share (EPS)

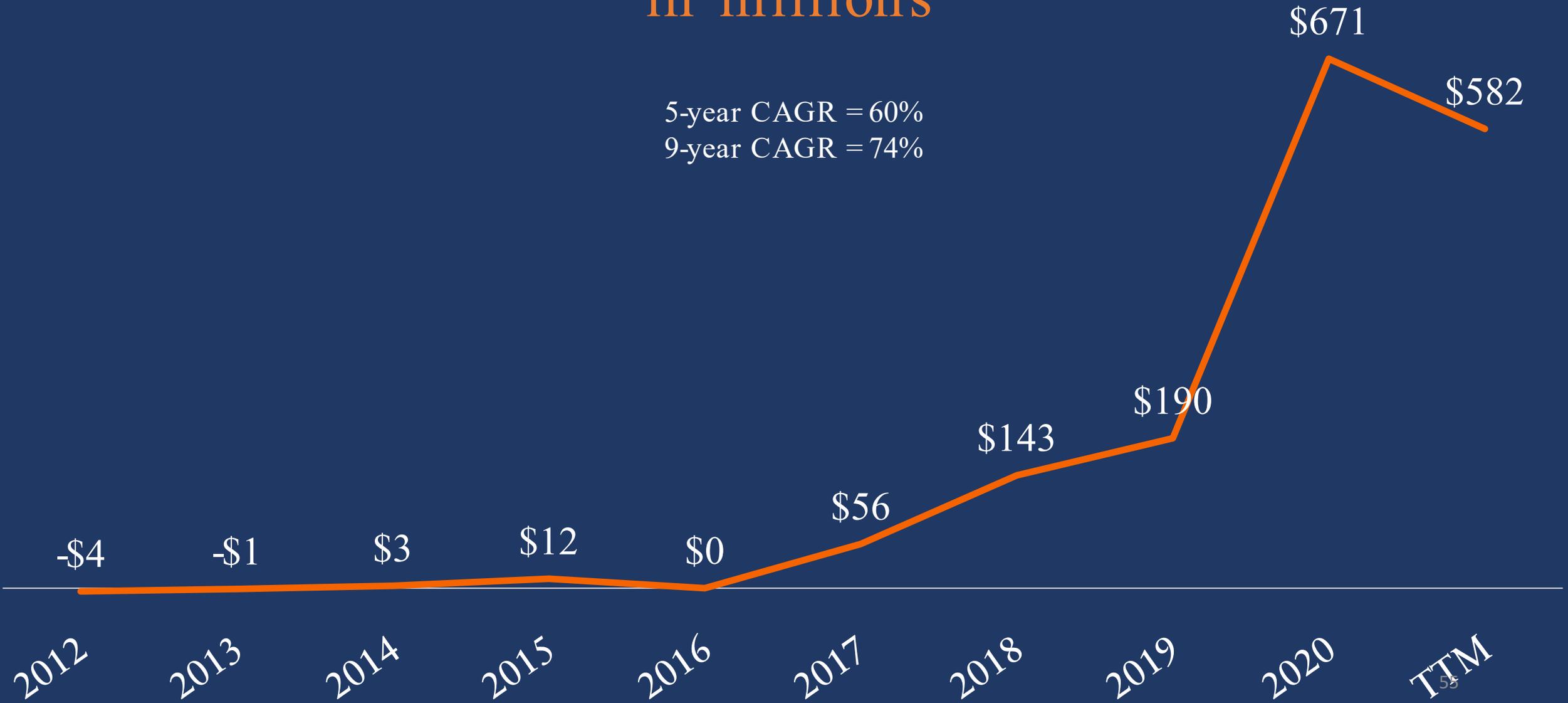
5-year CAGR = 38%  
9-year CAGR = 91%



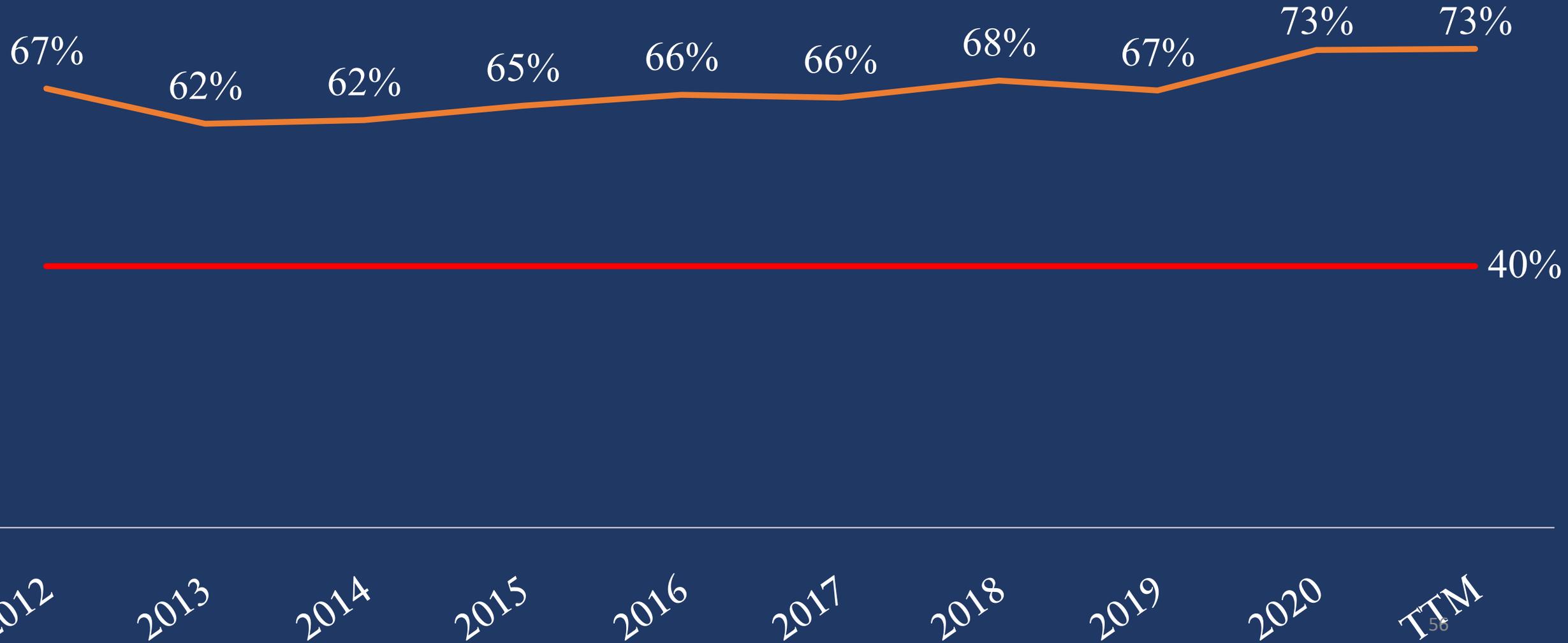
# Free Cash Flow (FCF)

in millions

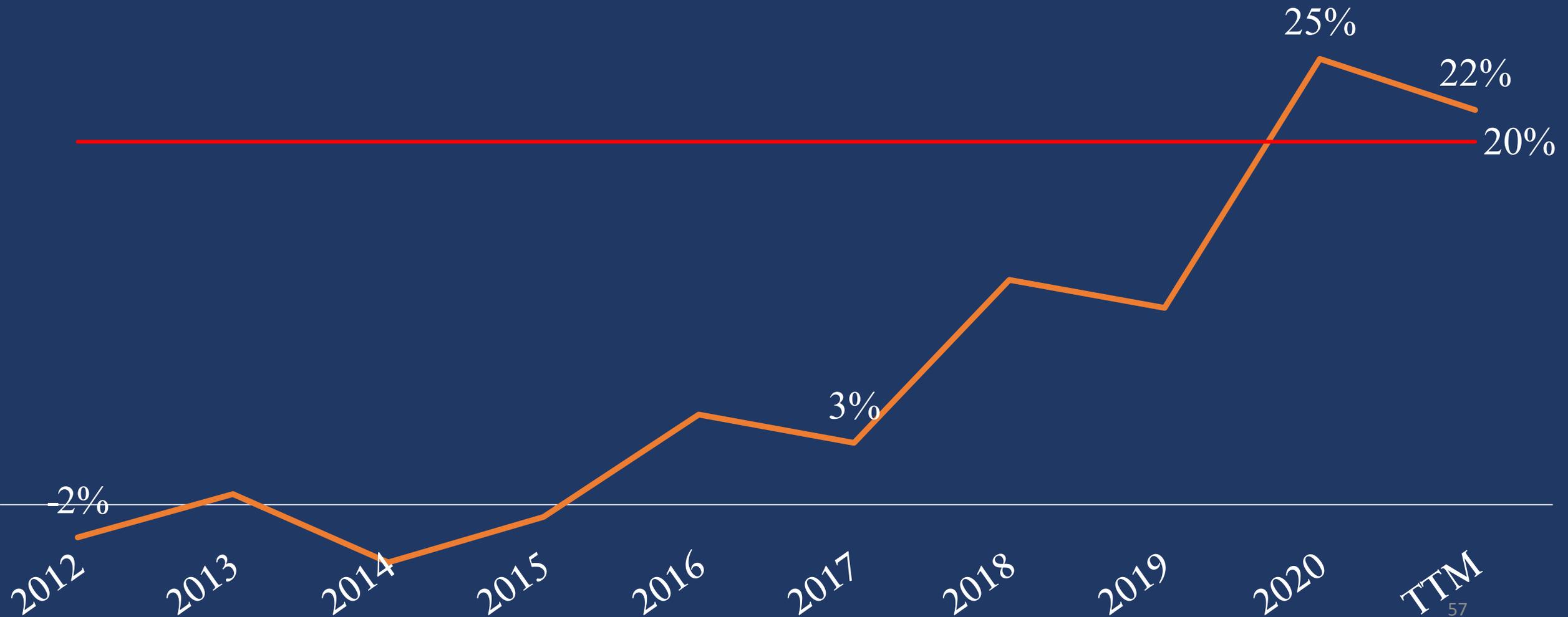
5-year CAGR = 60%  
9-year CAGR = 74%



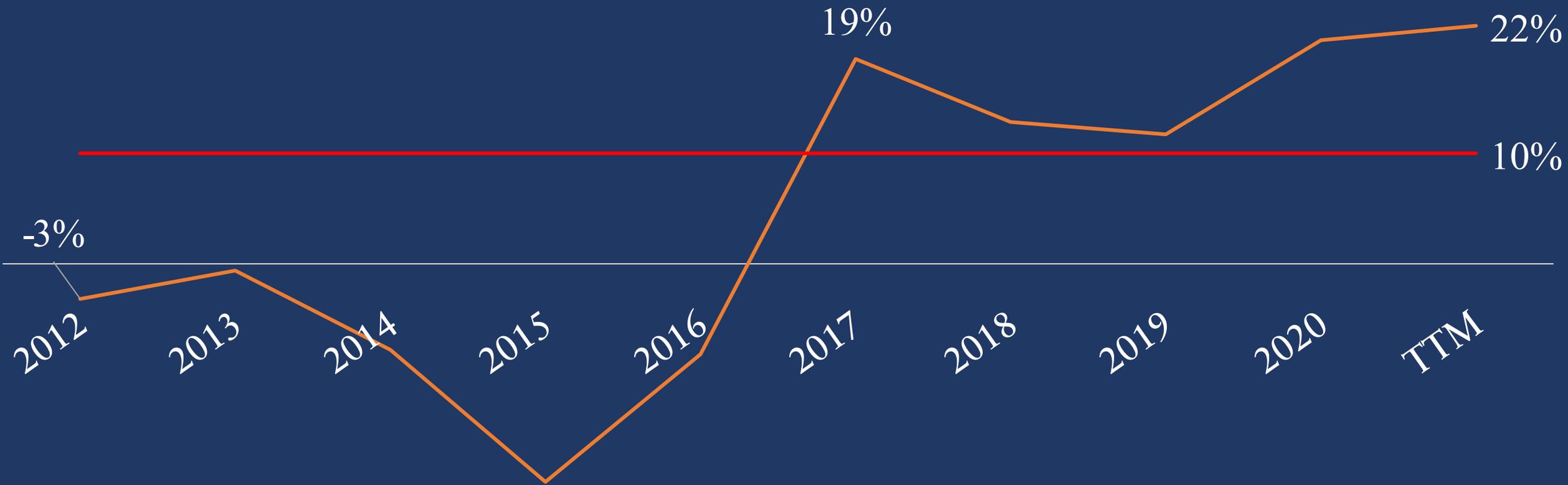
# Gross Margin



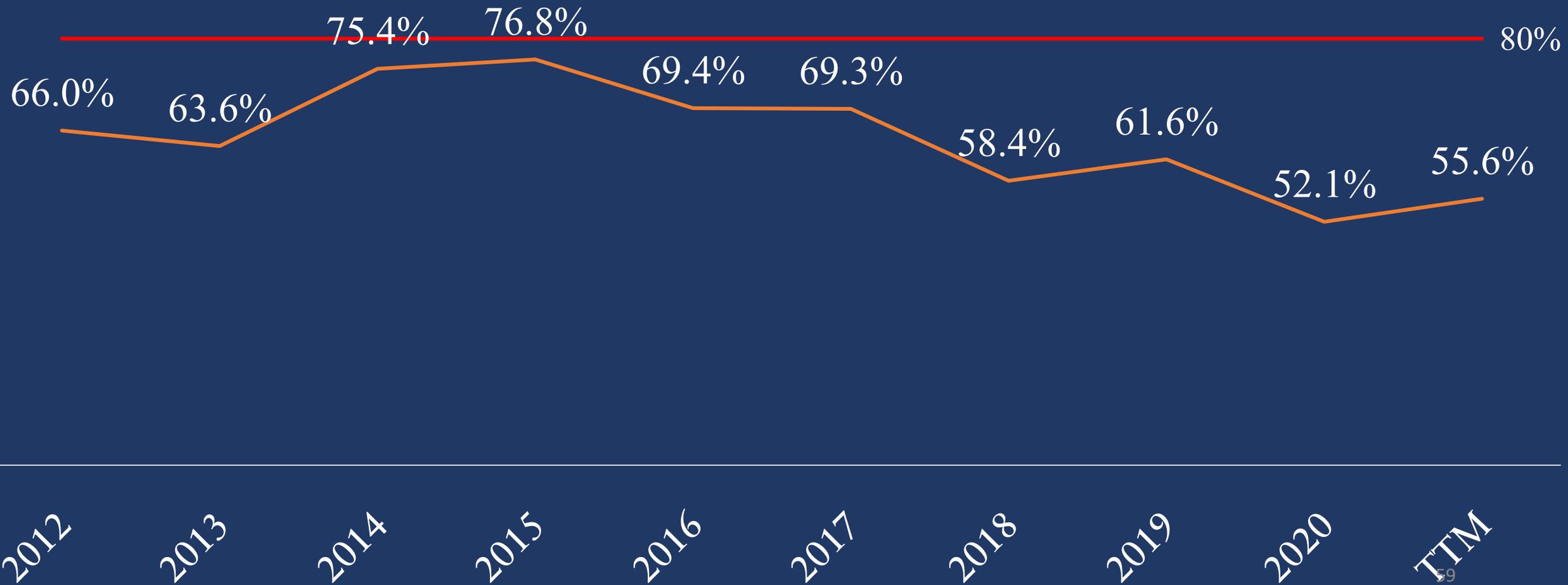
# Operating Margin



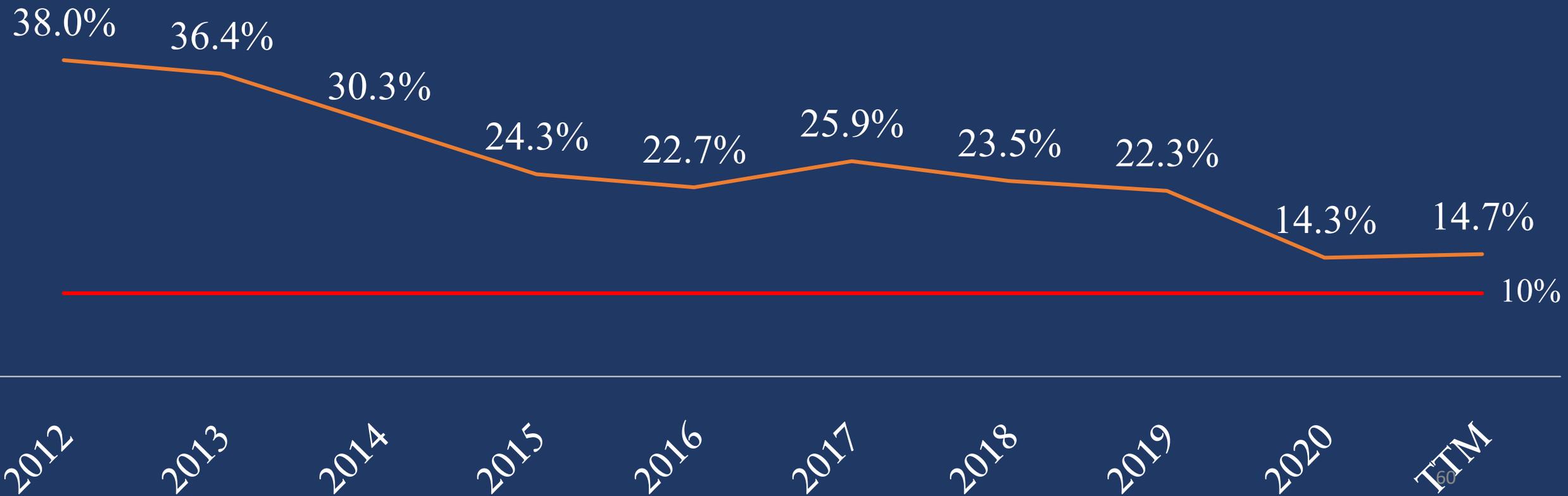
# Net Margin



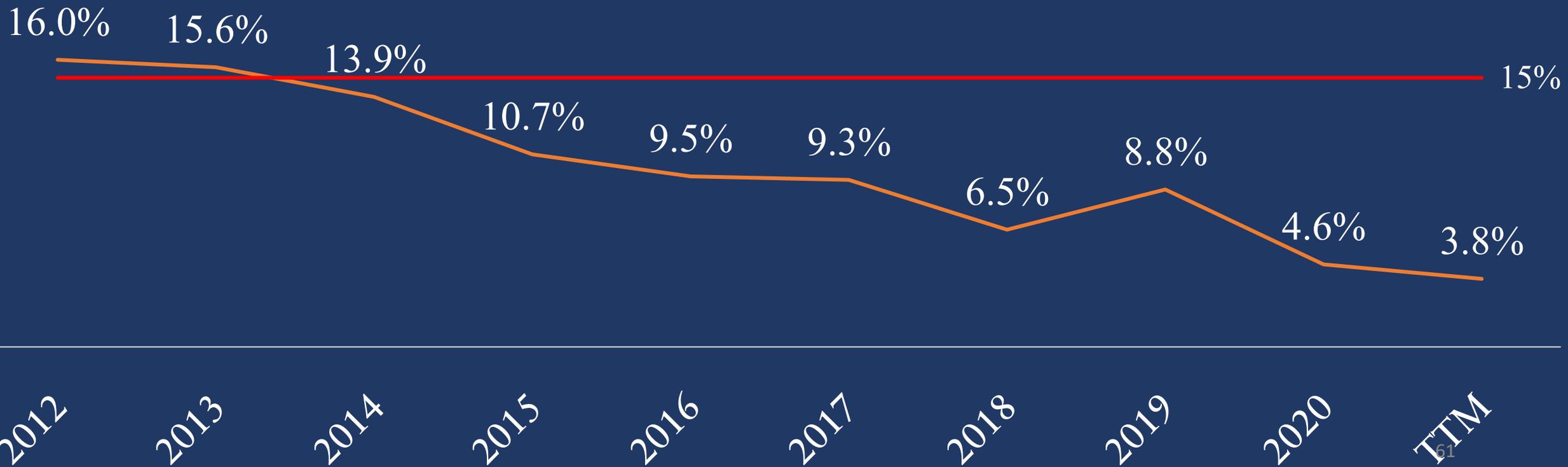
# Selling General & Admin. Expenses to Gross Profit



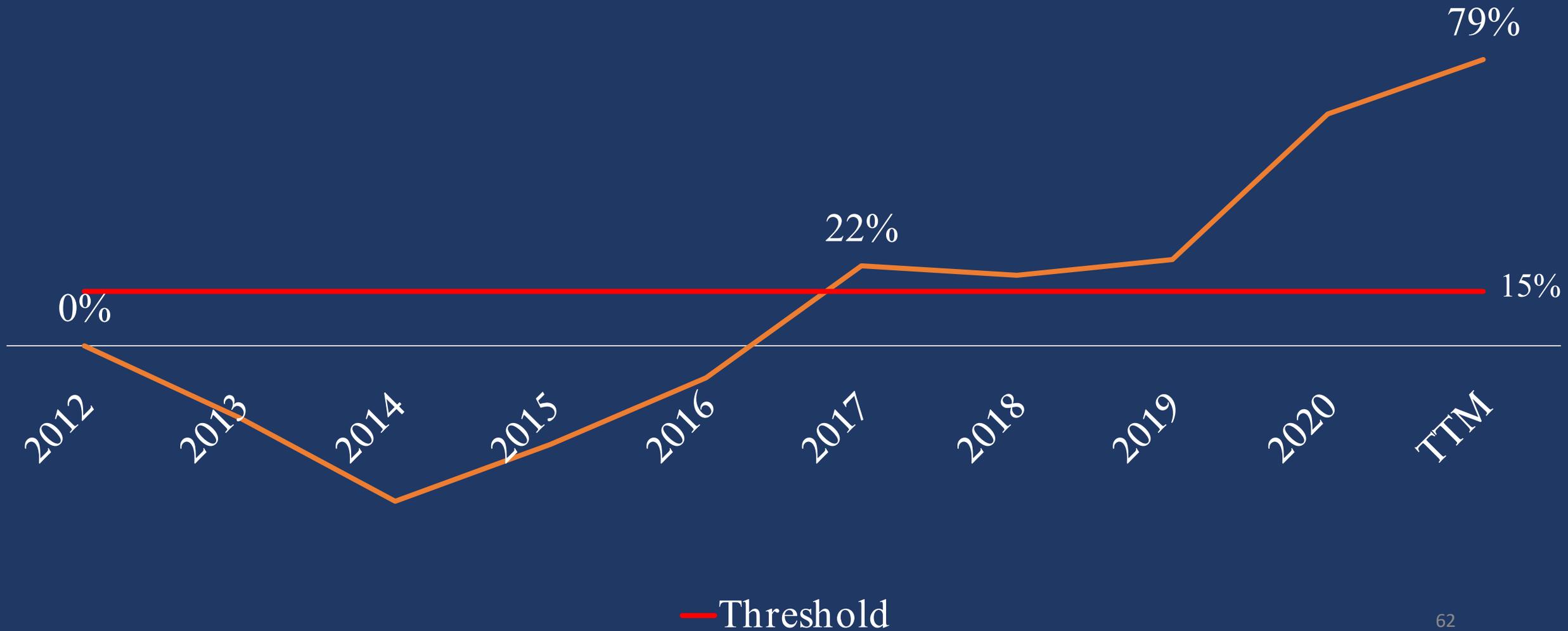
# Research & Development to Gross Profit



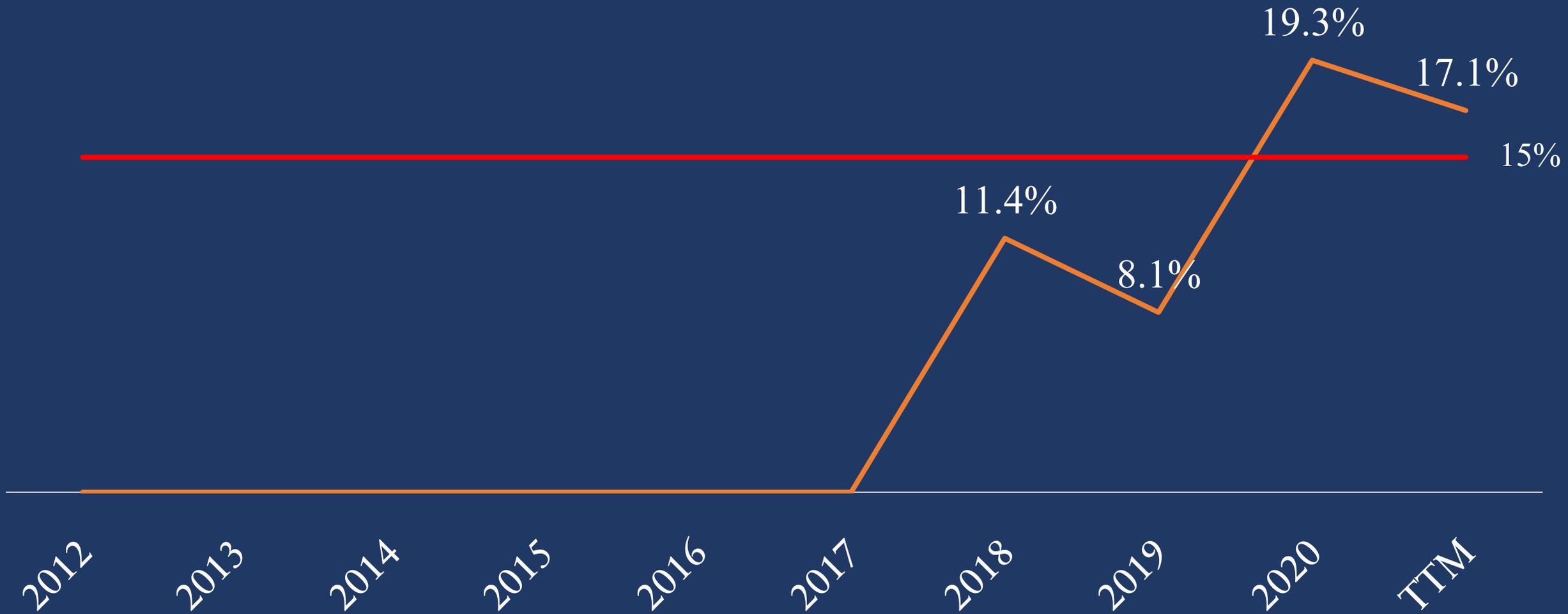
# Depreciation & Amortization to Gross Profit



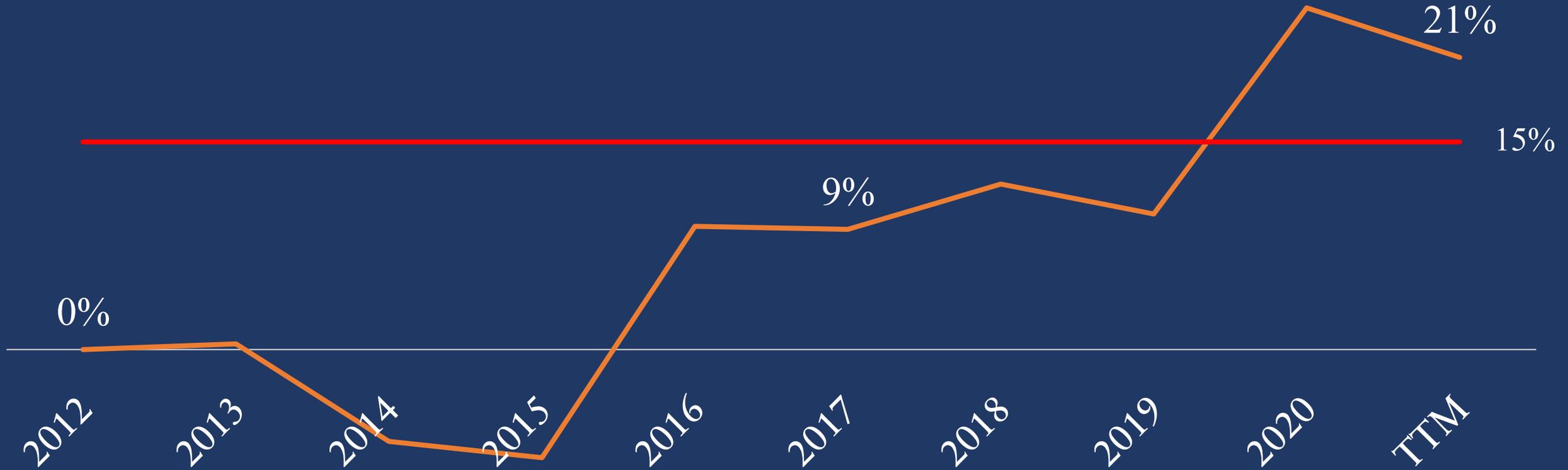
# Return on Equity



# Return on Capital

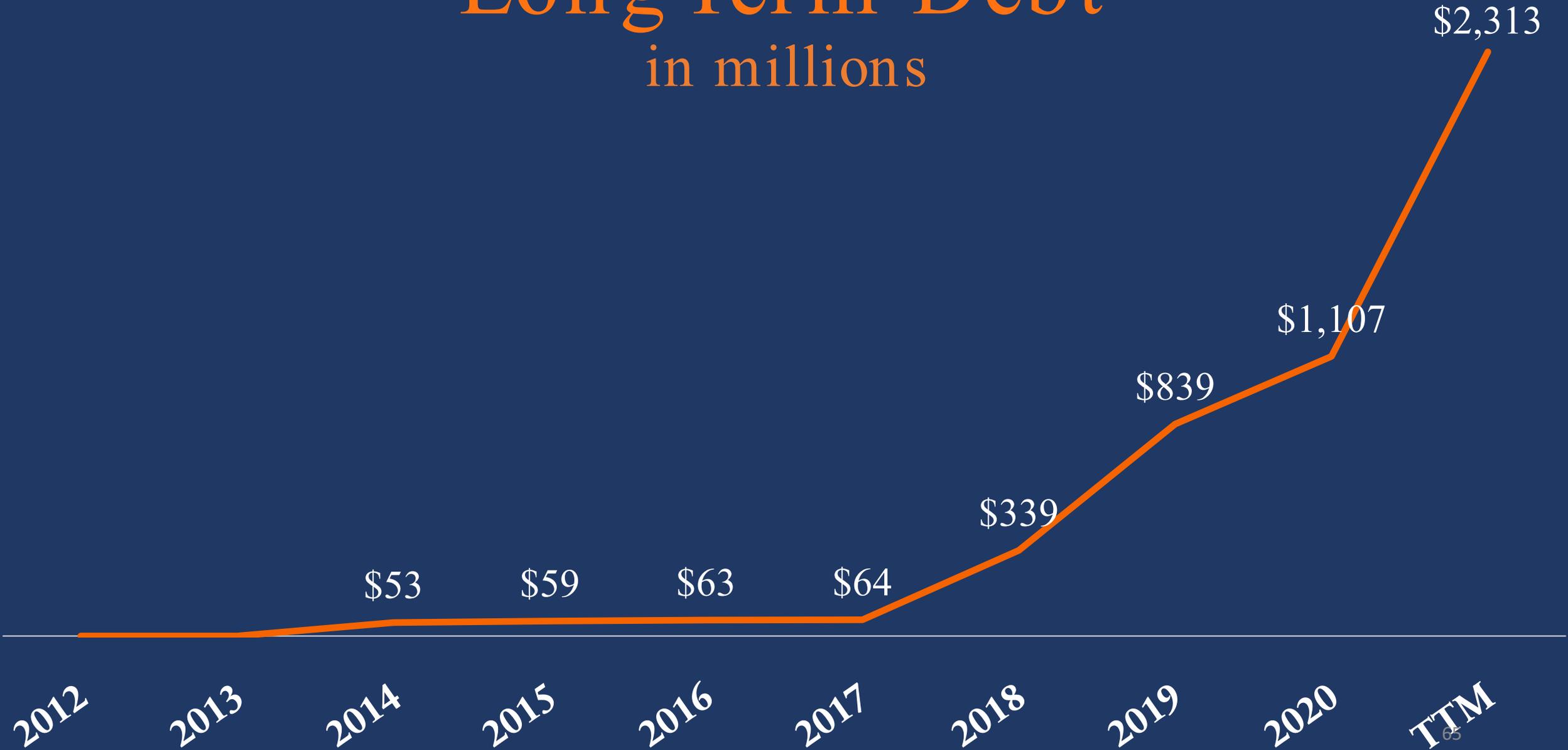


# Return on Capital Employed

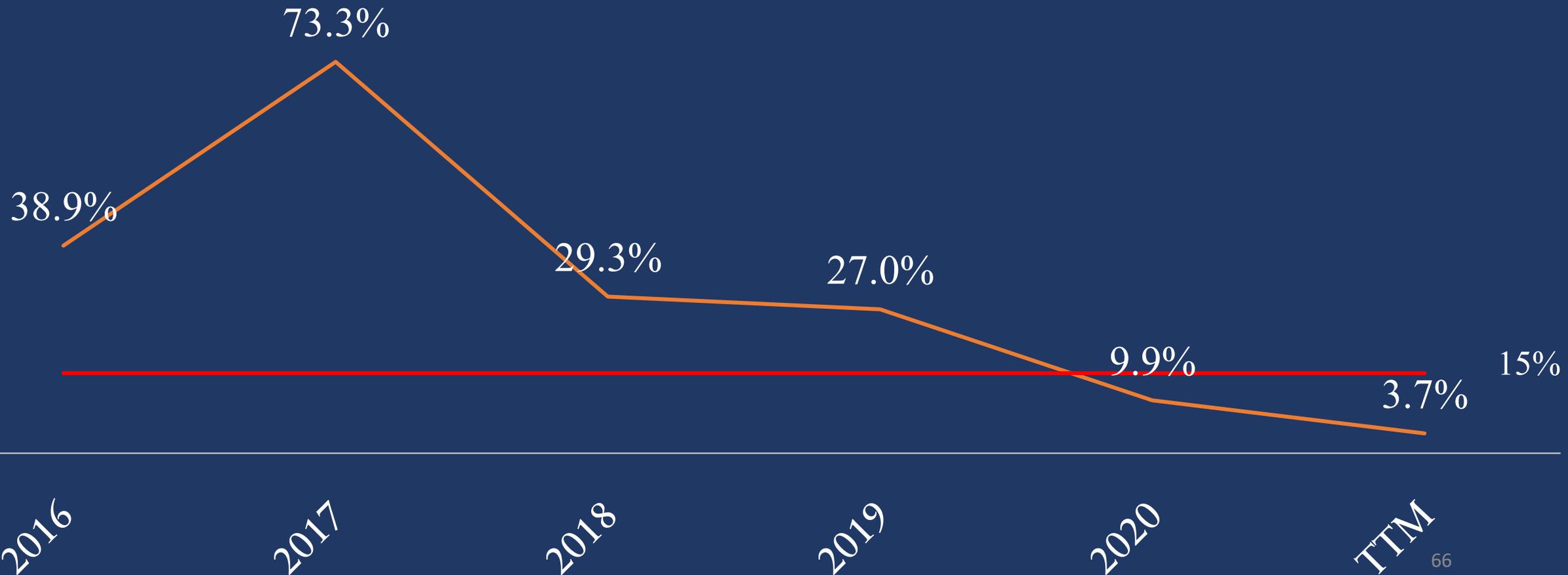


# Long-Term Debt

in millions



# Interest Expense to Operating Income



# Obligation Ratio

(+) Long-Term Debt :	\$ 2,274
(+) Short-Term Debt :	\$ 9
(+) Leases *7 :	\$ 60.1
(+) Pension Shortfall :	\$0
(+) Preferred Stock :	\$0
(-) Cash Assets :	\$817
Total Obligations:	\$1,526

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(=) Net Income : \$480

Obligation Ratio : 3.18 Years < 5

# Shares Outstanding

(in millions)



2012

2013

2014

2015

2016

2017

2018

2019

2020

TTM



# Risk Factors

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What could Disrupt Etsy's  
Progress?

# E-Tail Marketplace Risks

- Low Barriers to Entry
  - Competing for Wallet Share & Sellers
- Requires Constant Innovation
- Data Privacy Concerns

# Risks Specific to Etsy

- Rapid growth pushing away Small Sellers
  - Mandatory Changes to the Platforms
- Products skew heavily to Discretionary Items
- Attracting/Maintaining Talent
  - Management & Tech
- Recent Acquisitions of:

**depop** & *elo7*



# Growth Prospects

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What does Etsy's future hold?



depop  
elo7

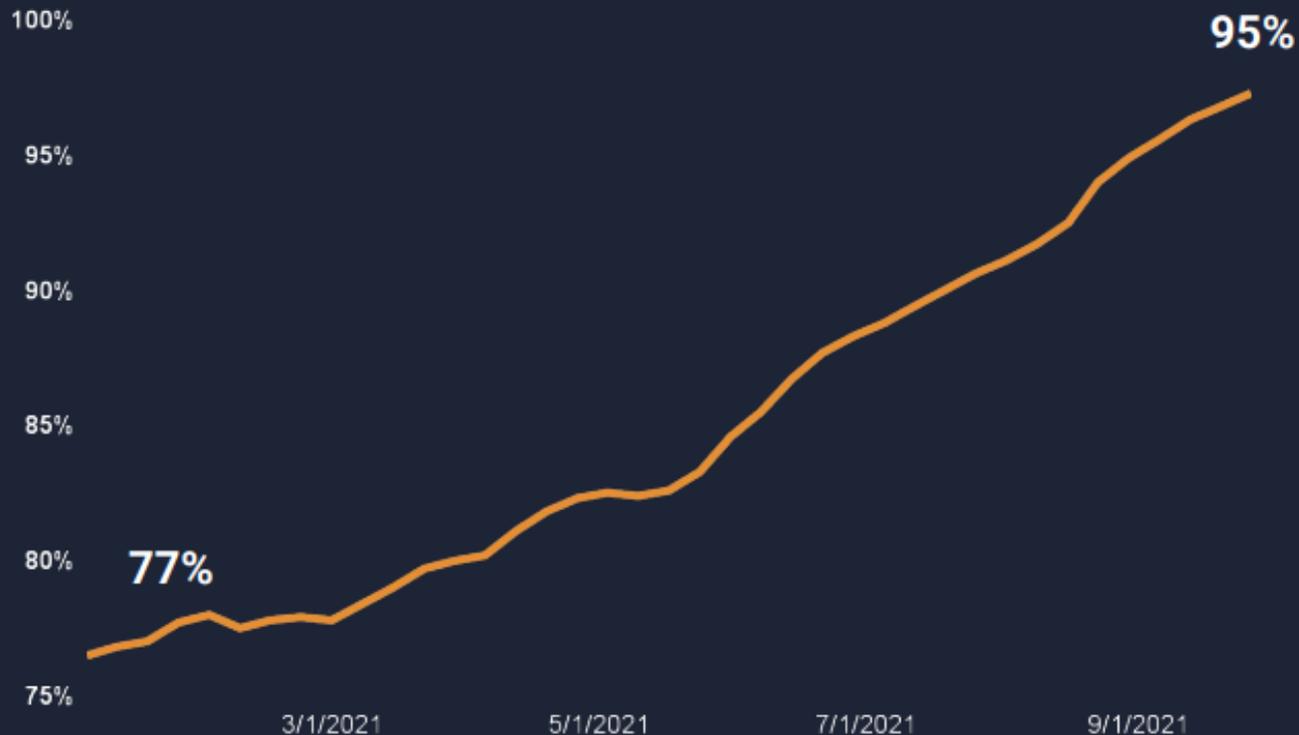


- Apparel category to reach \$543B by 2025
- Secondhand market projected to double
- Resale projected to grow 11x faster than broader retail
- Managements 2023 estimates:
  - Online market: \$347 billion
  - Online & Offline: \$2 trillion

# Enhancing the Buying Experience

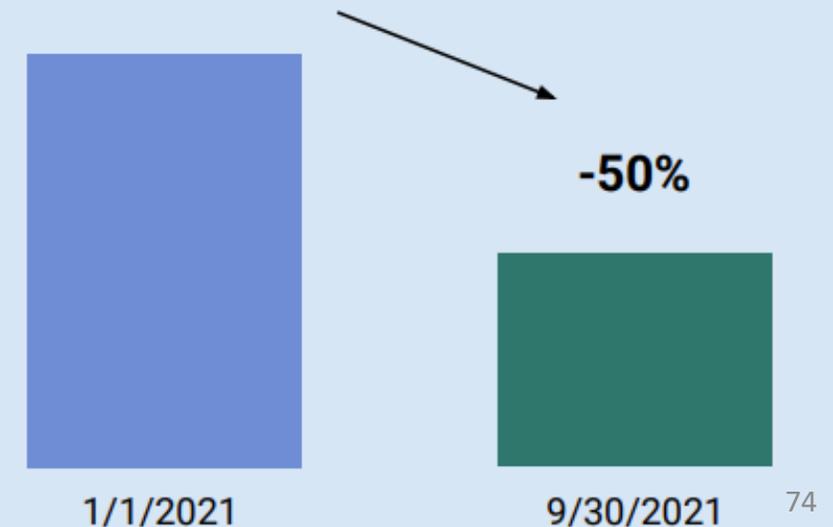
## Expected Delivery Date Coverage

*% of US listings with estimated arrival dates based on shipping and processing times*



## Late Deliveries

*% of US orders that arrive after their expected delivery date*



# Enhancing the Buying Experience

- 3.2M seller videos uploaded
- Increases engagement and conversion
- Makes products stand out
- Etsy's Mission
  - “To Keep Commerce Human”



# Improving Technology

- Improving Recommendations
- Incorporating More Attributes  
To Search Algorithm
- Switch To Google Cloud

# Metaverse



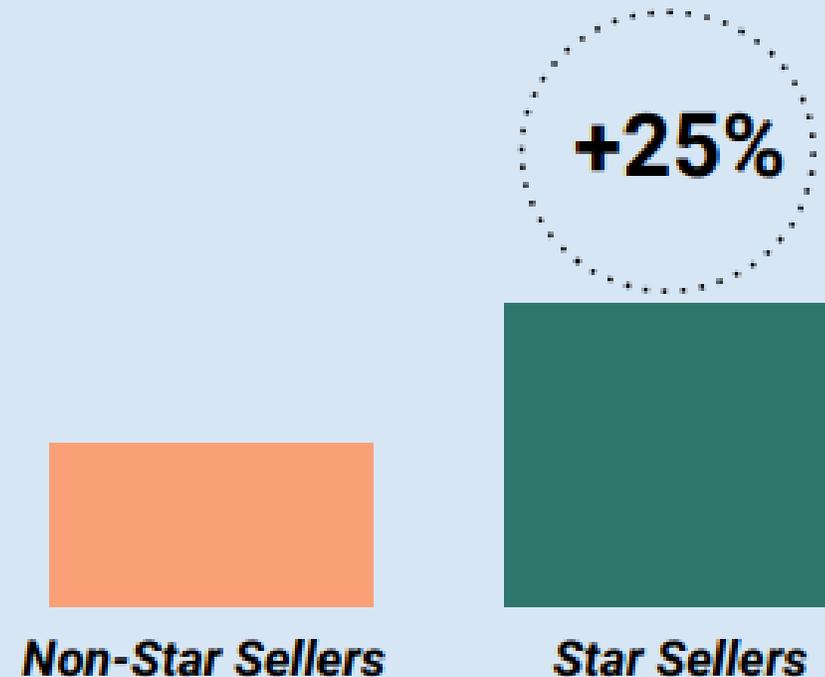
## The Etsy House

- True-to-scale renderings
- 360-degree imagery
- Decorated with items from the Etsy marketplace
- House is “shoppable”
- Partnership with The Boundary

# Star Seller

- Stand out from the crowd
- More chances to be featured
- Opportunity for increased sales

## Repeat Purchase Rate\* Star Sellers vs. Non-Star Sellers



# Developing Sellers

- Discounted shipping labels
- Every hour sellers spend making their product, they spend another hour doing business-related tasks
  - Management
  - Marketing
  - Customer service
- Etsy provides tools and educational services to sellers

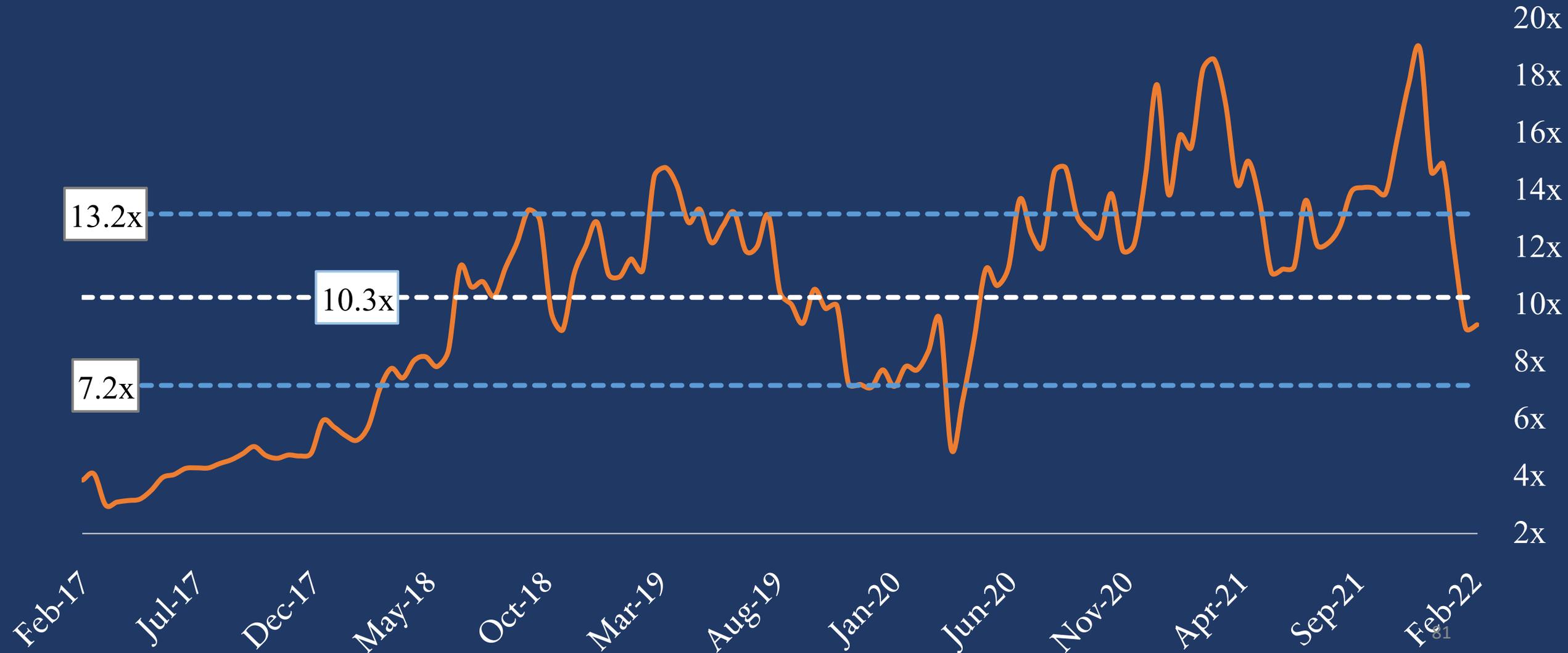


# Stock Valuation

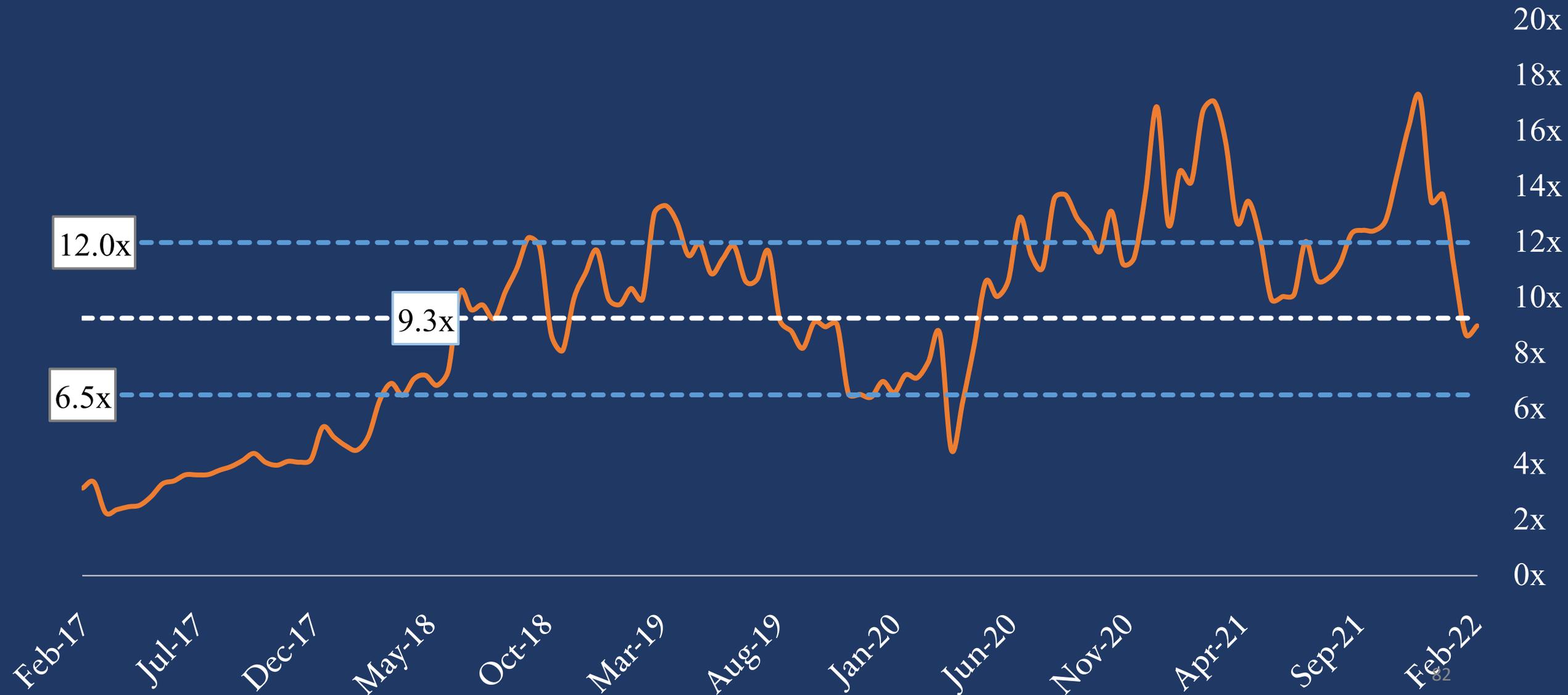
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What Makes Etsy an  
Attractive Investment?

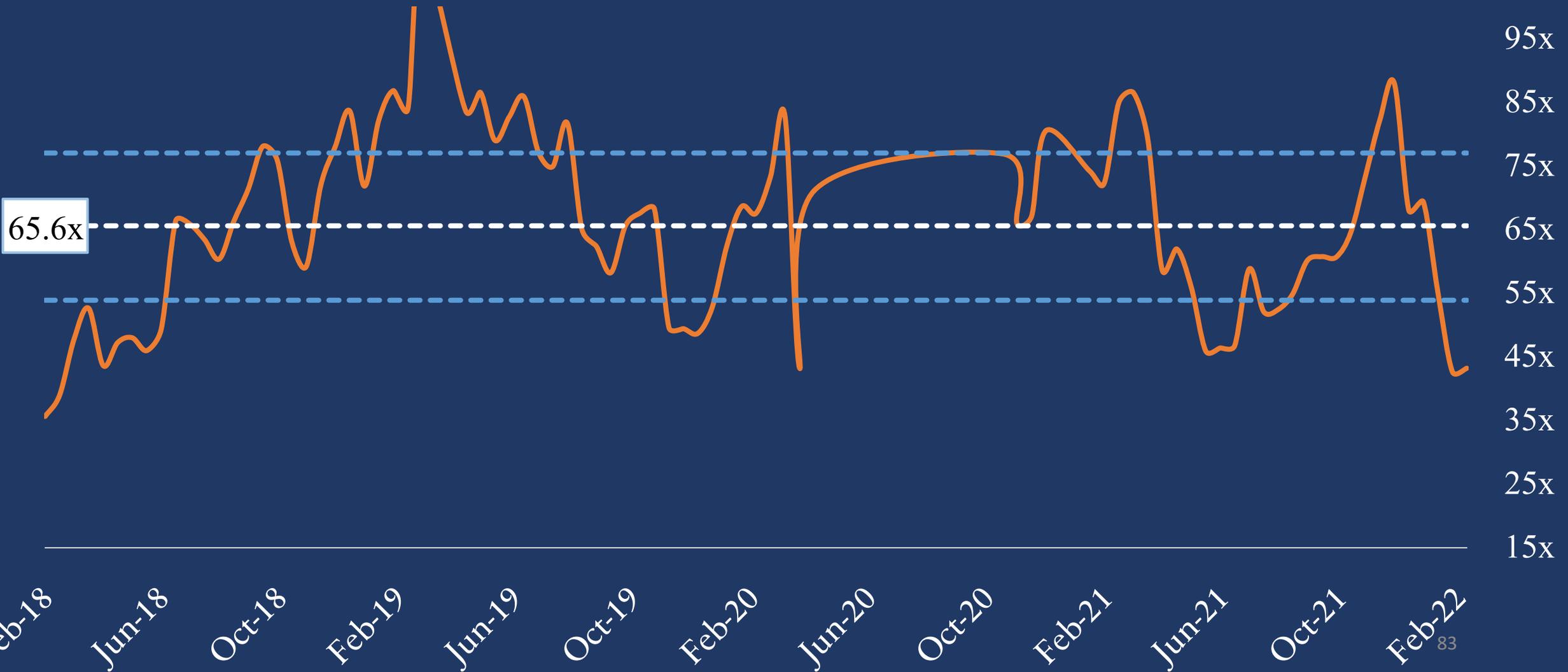
# Price to Sales



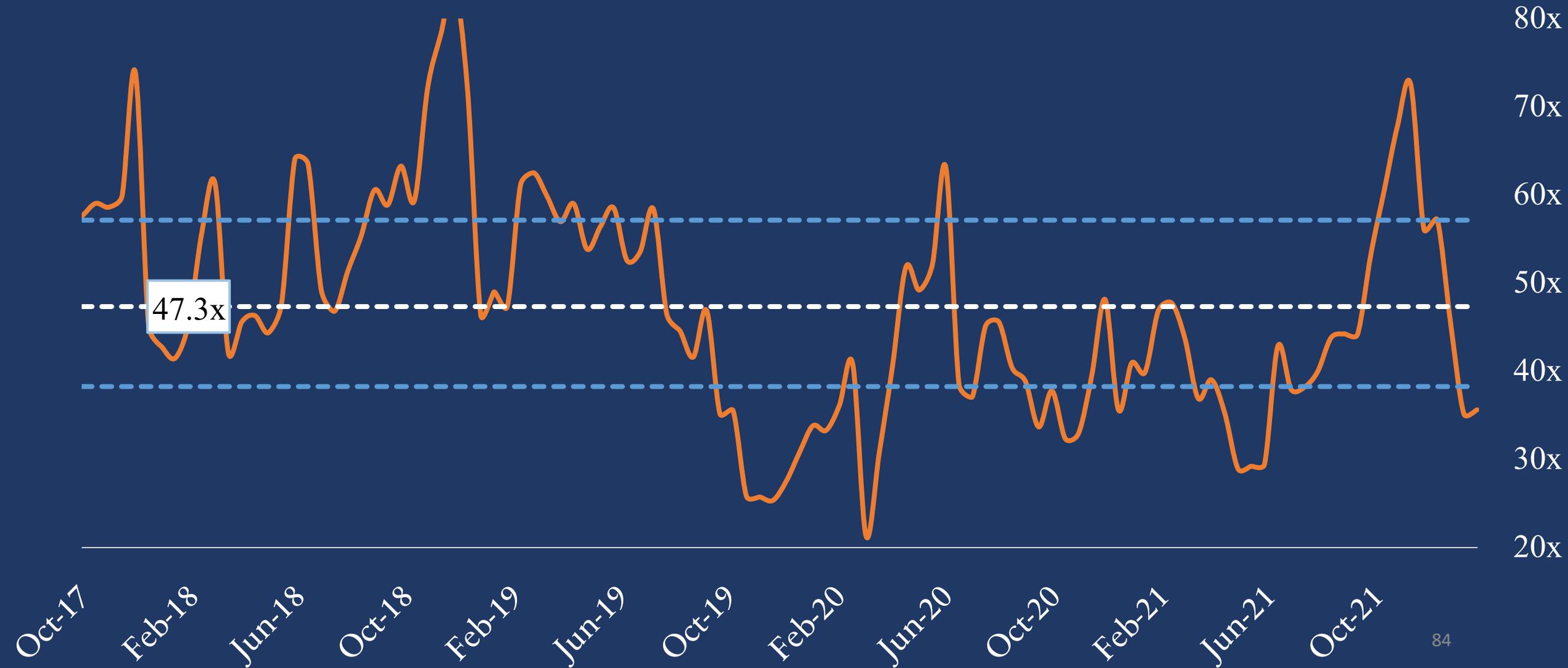
# EV to Sales



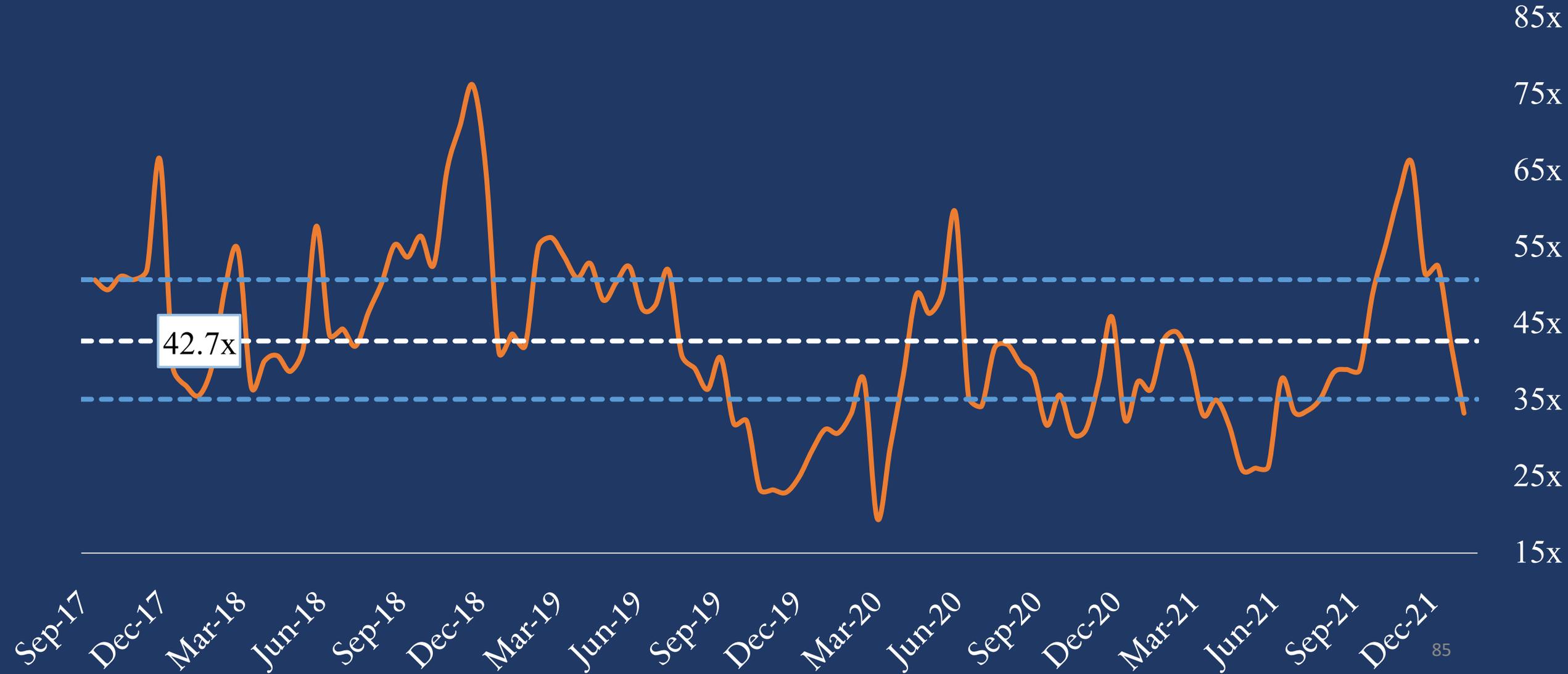
# Price to Earnings



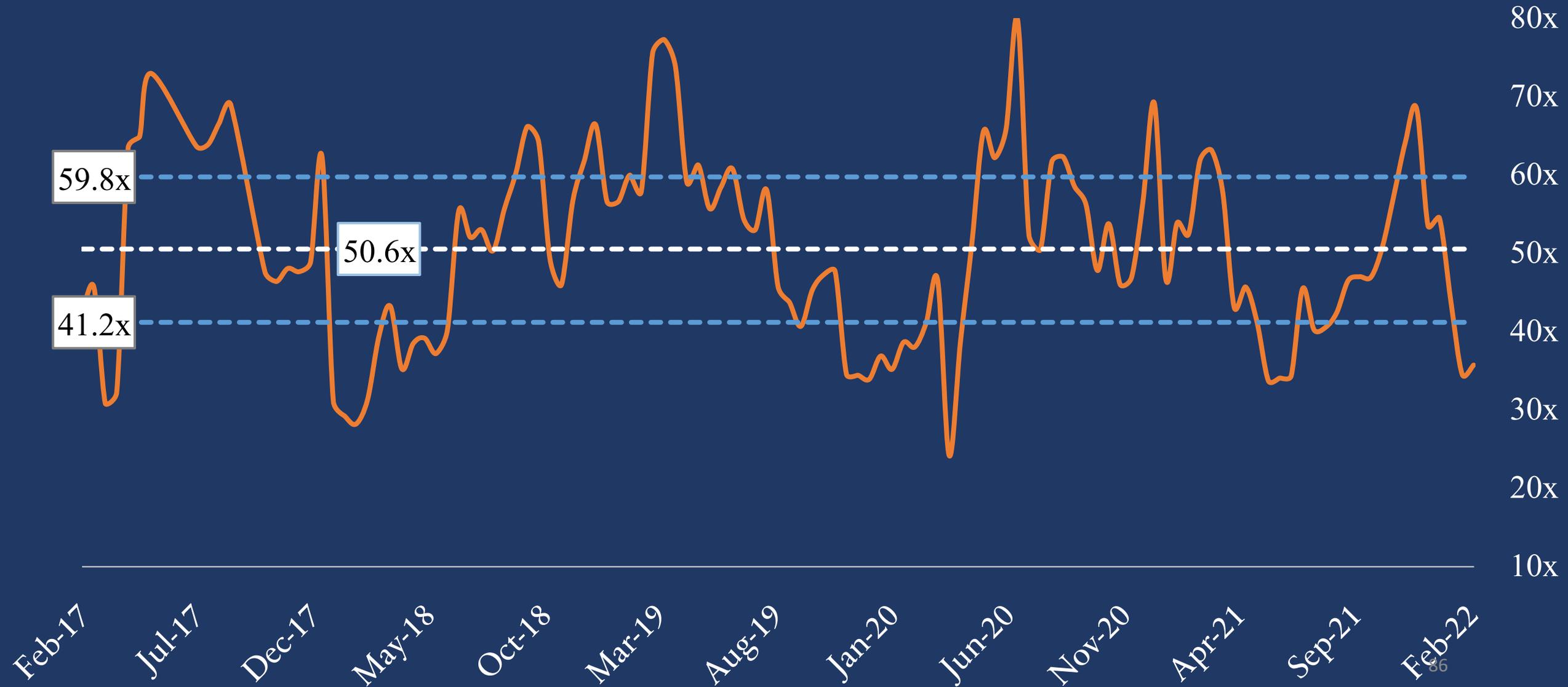
# Price to Free Cash Flow



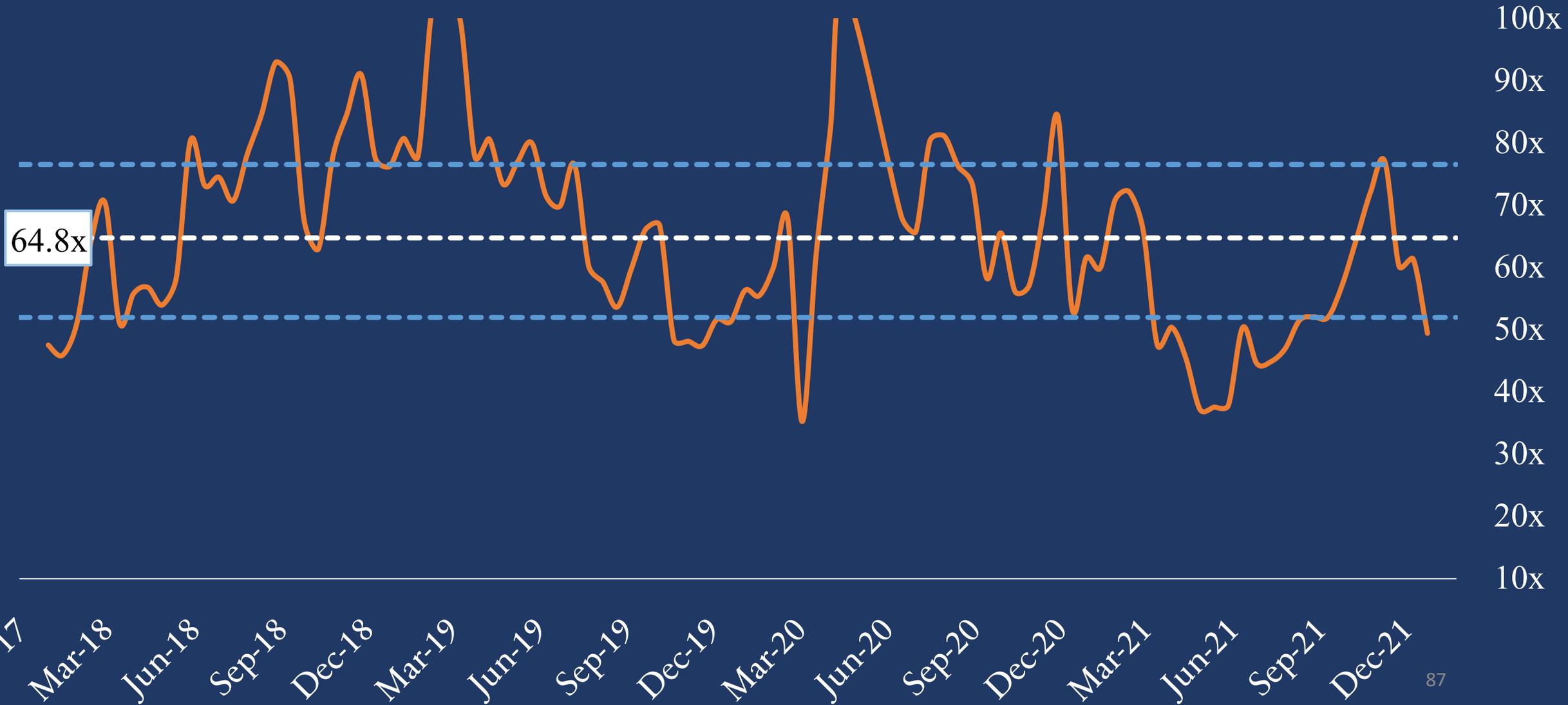
# EV to Free Cash Flow



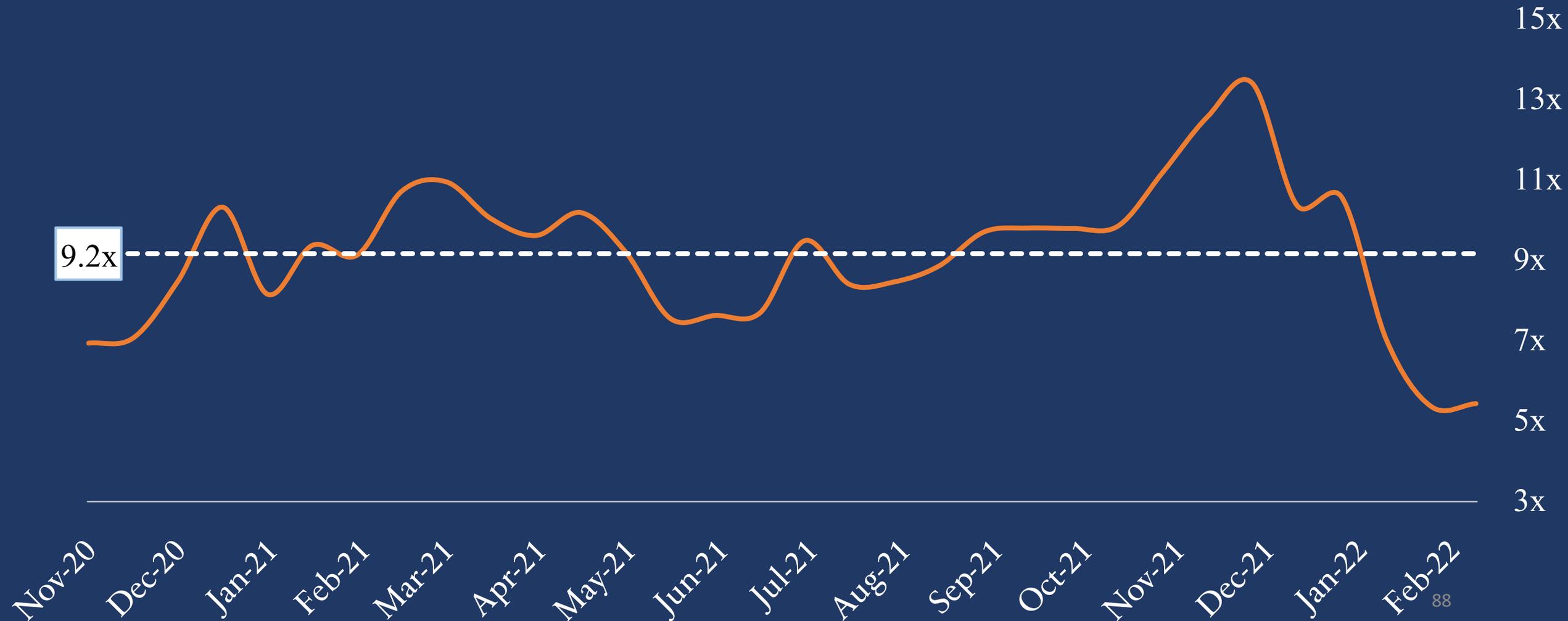
# EV to EBITDA



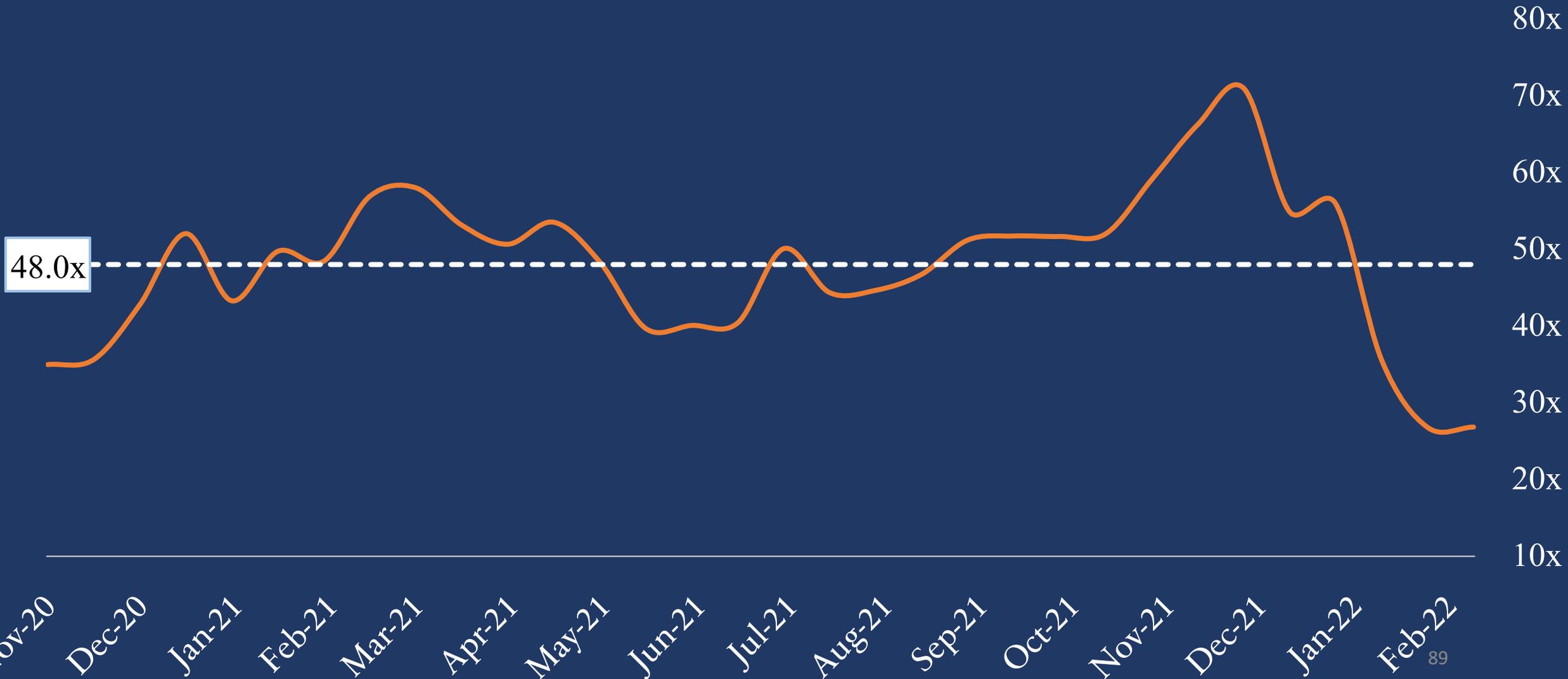
# EV to EBIT



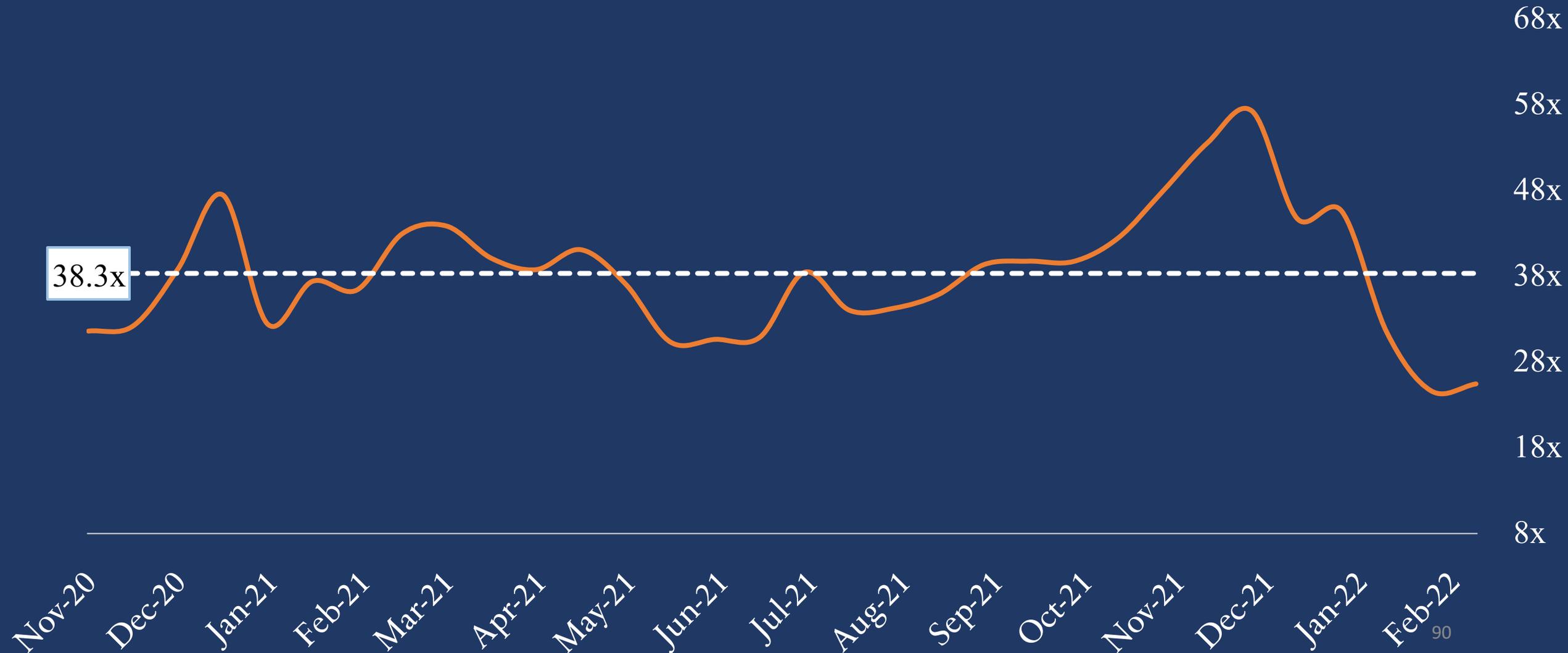
# Forward Price to Sales



# Forward Price to Earnings



# Forward EV to EBITDA



# Historical Growth Rates

CAGR	5-year	4-year	3-year
Net Income	NMF	58%	71%
Diluted EPS	NMF	53%	64%
Free Cash Flow	NMF	42%	45%
FCF PS	NMF	38%	39%
Sales	44%	39%	40%
Sales PS	37%	34%	33%

# Expected Growth Rates

	Type	Years	CAGR
Value Line	Revenue	5	20%*
Value Line	Earnings	5	17%*
Y-Charts (S&P Global)	Earnings	Long-term	20%-33%
BIC Bear Case	EPS & FCF	5	12%
BIC Base Case	EPS & FCF	5	18%
BIC Bull Case	EPS & FCF	5	22%

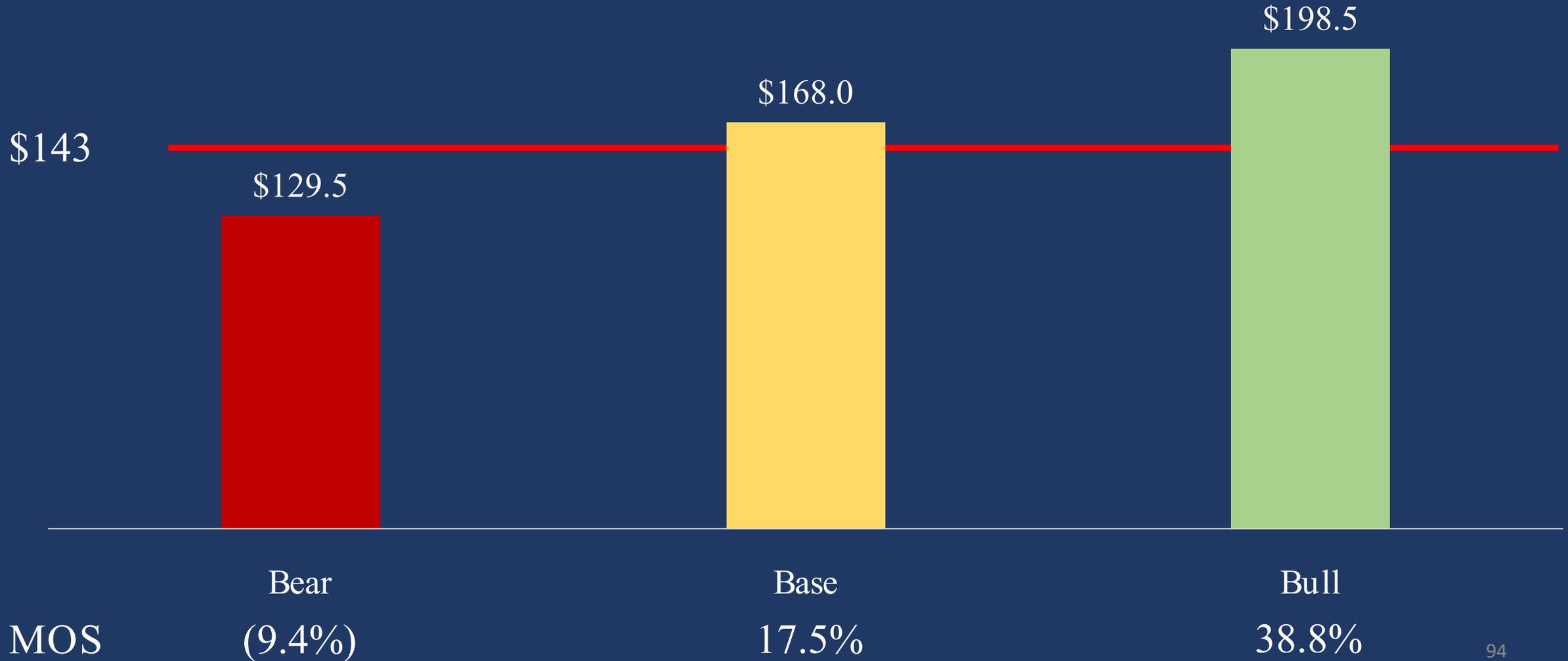
\* TTM RPS and EPS to Value Line's 2026 estimates

# Inputs for Five-Year Valuation Model

## (Price to Earning)

	Bear	Base	Bull
TTM EPS	\$3.38	\$3.38	\$3.38
P/E	25x	35x	45x
Growth Rate	12%	18%	22%
Discount Rate	10%	10%	10%
PEG	2.1	1.9	2.0

# Base Case Present Value



MOS

# Diluted EPS Sensitivity Analysis

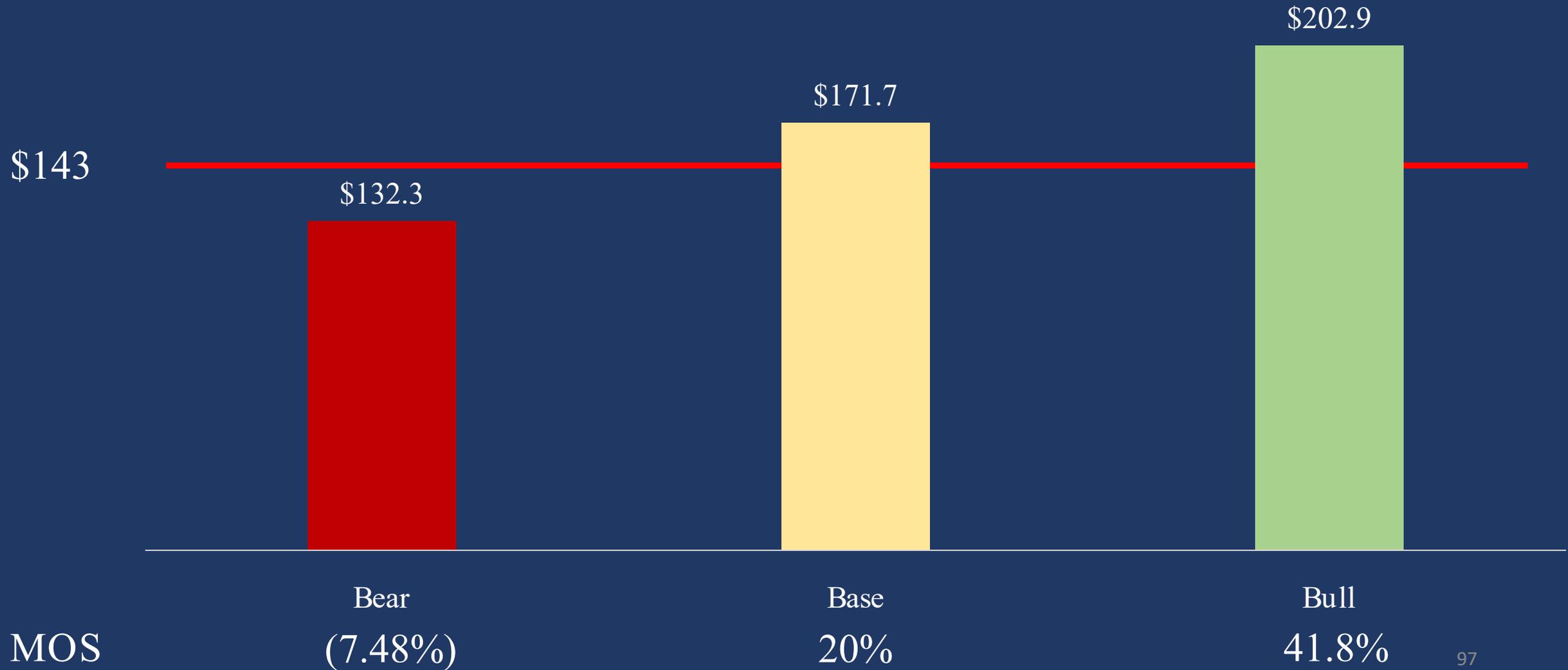
		Total RoR Sensitivity		
		12%	18%	22%
P / E	25.0x	0.8%	6.2%	9.8%
	35.0x	7.8%	13.6%	17.5%
	45.0x	13.4%	19.5%	23.5%

# Inputs for Five-Year Valuation Model

(Price to Free Cash Flow)

	Bear	Base	Bull
TTM FCF PS	\$4.03	\$4.03	\$4.03
P/FCF	20x	30x	40x
Growth Rate	12%	18%	22%
Discount Rate	10%	10%	10%
PEG	1.7	1.7	1.8

# Base Case Present Value



# FCF Per Share Sensitivity Analysis

		Total RoR Sensitivity		
		12%	18%	22%
P / FCF	20.0x	(0.1)%	5.2%	8.8%
	30.0x	8.3%	14.1%	18.0%
	40.0x	14.7%	20.9%	25.0%



# Conclusion



Time for Action.

# Recap

- Niche Market Dominator
- Asset-Light
- Long-Term Oriented Management
- Quality Financials
- Attractive Valuation

# Proposal

- 3% of Portfolio – \$45k
- Market Order
  - Current Price: ~\$143
  - 315 Shares



Thank you!



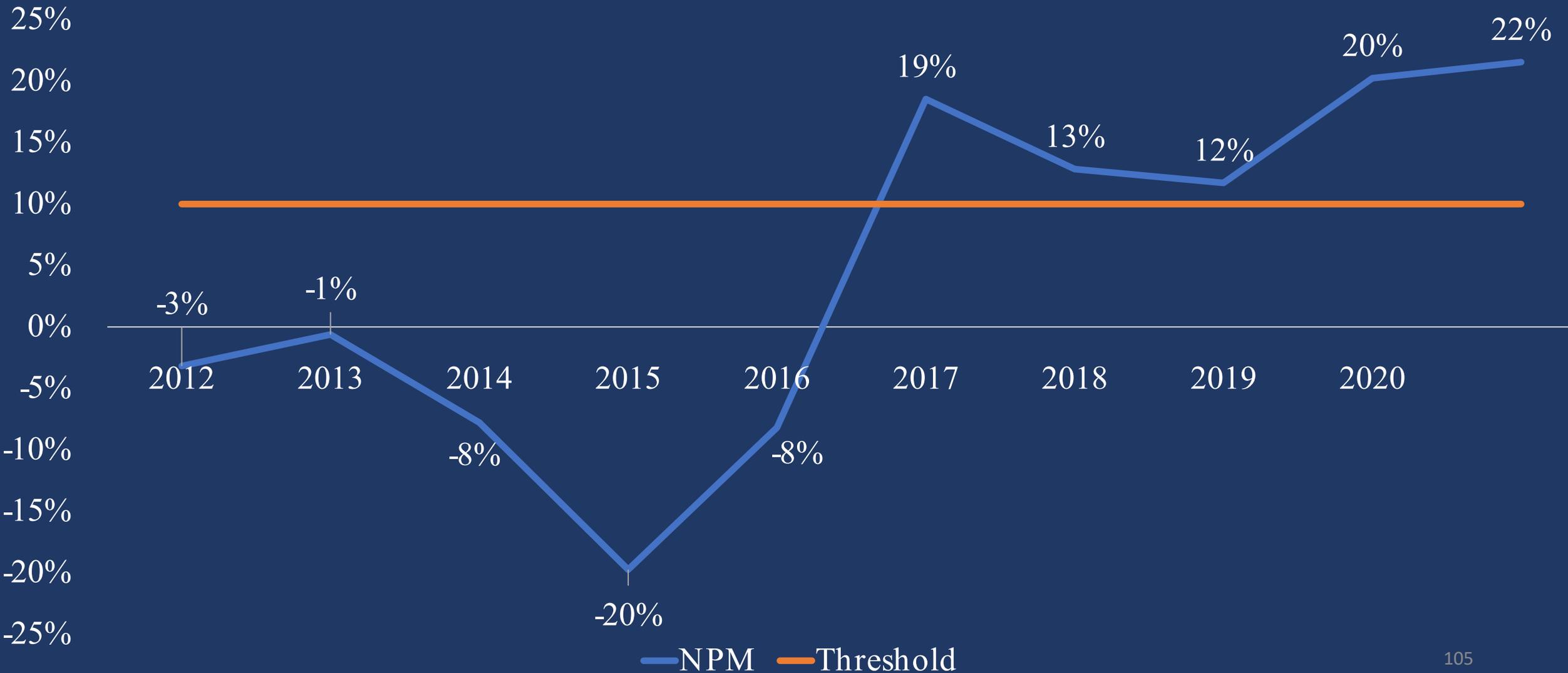
# Q & A

Thank you!

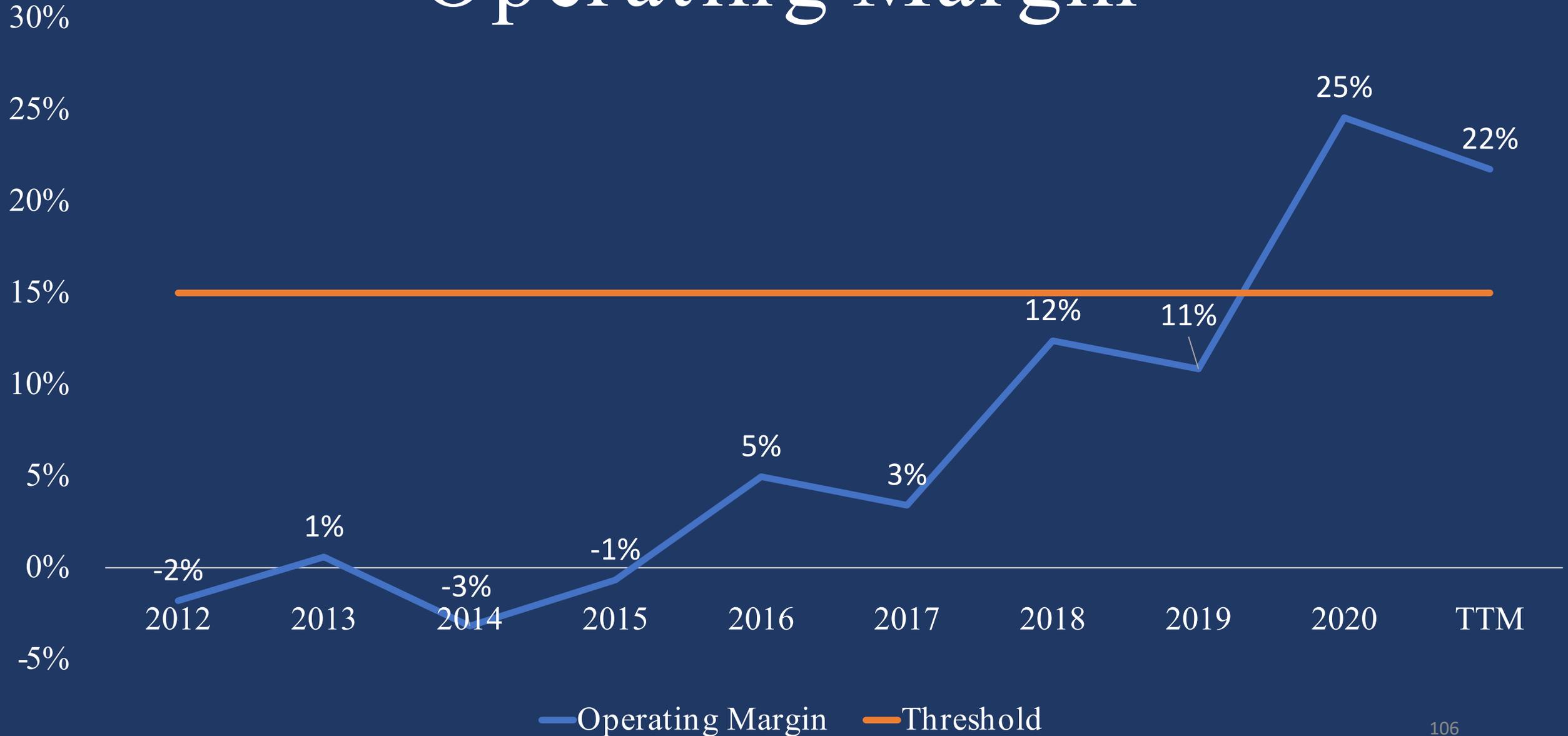
The background is a complex abstract composition of paint. It features a dominant blue color with various shades and textures, including dark blue, teal, and light blue. There are prominent yellow and red brushstrokes that curve across the frame. The surface is covered in numerous small splatters and larger, irregular shapes, creating a sense of movement and depth. The overall effect is that of a dynamic, multi-layered artistic piece.

# Appendix

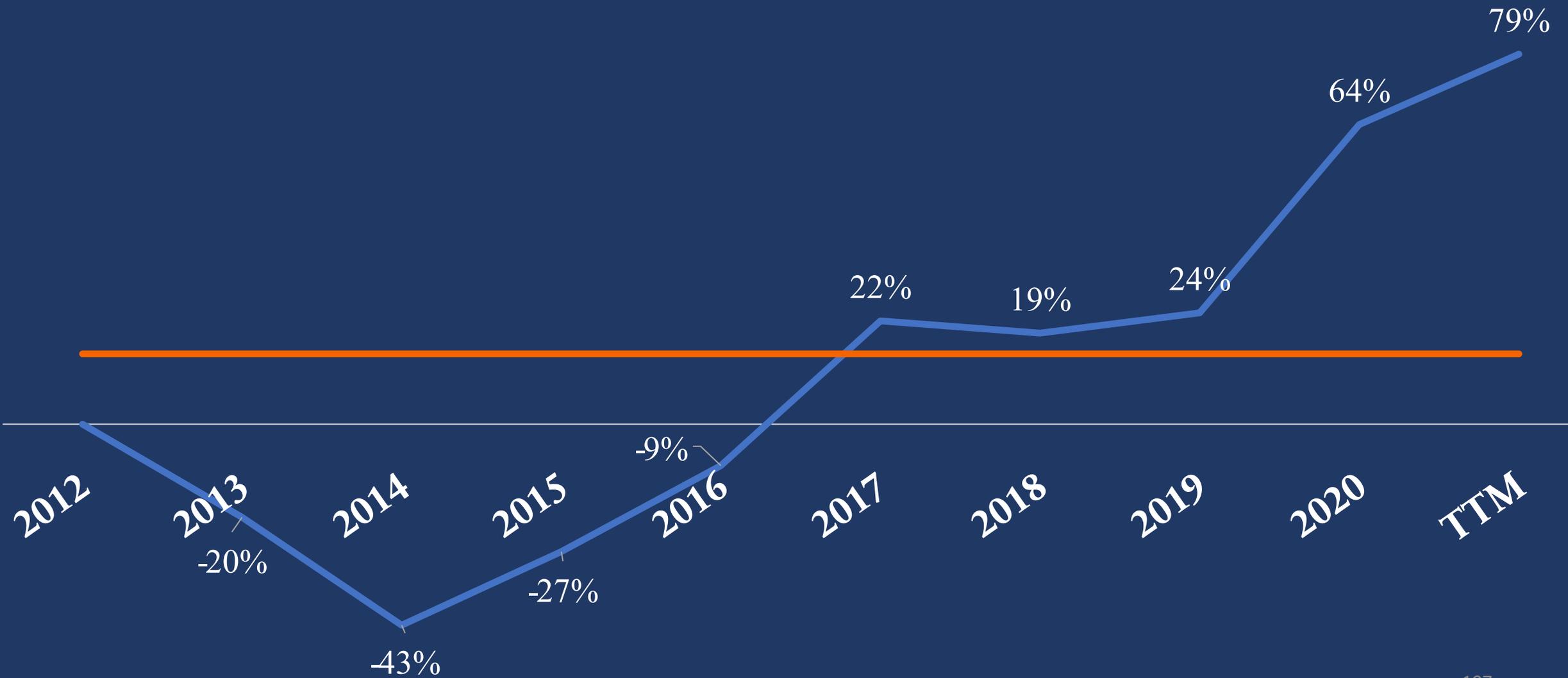
# Net Profit Margin



# Operating Margin



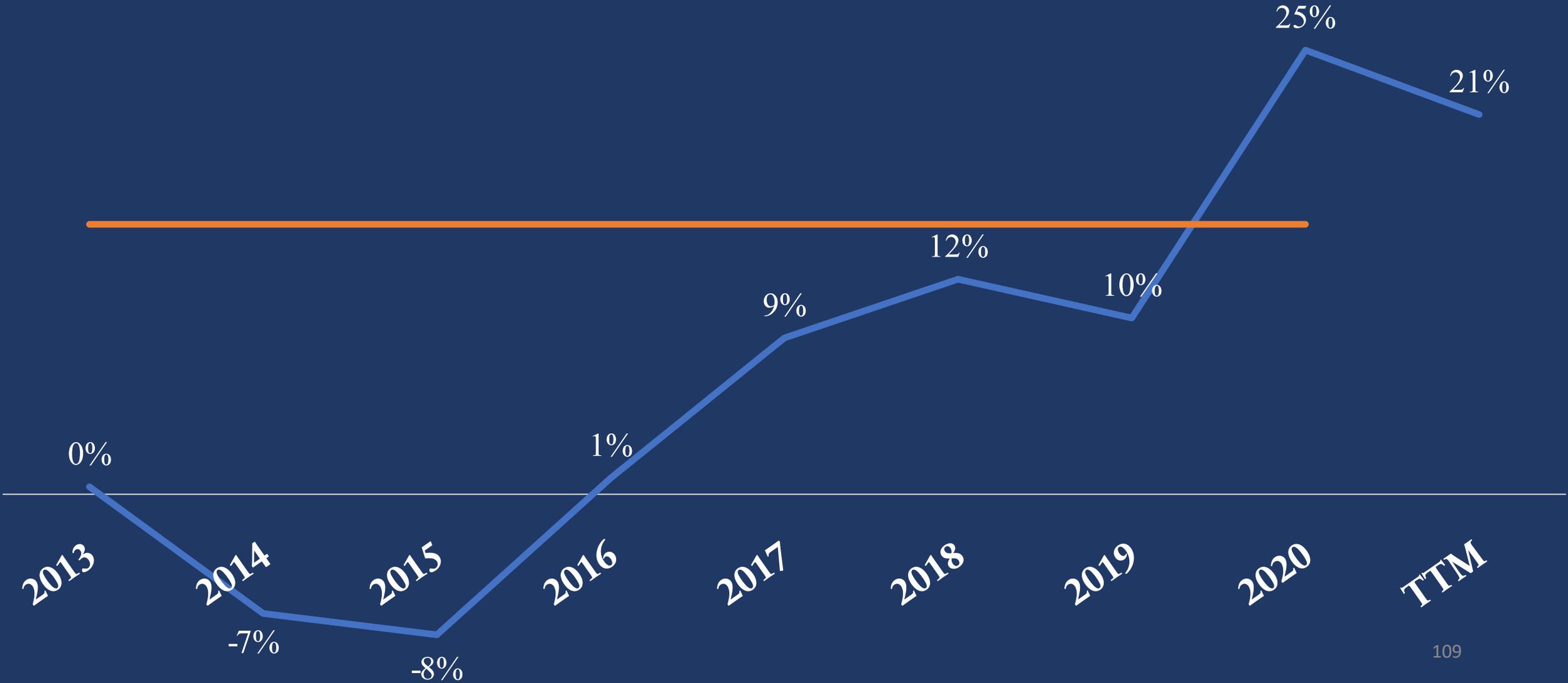
# Return on Equity



# Return on Invested Capital



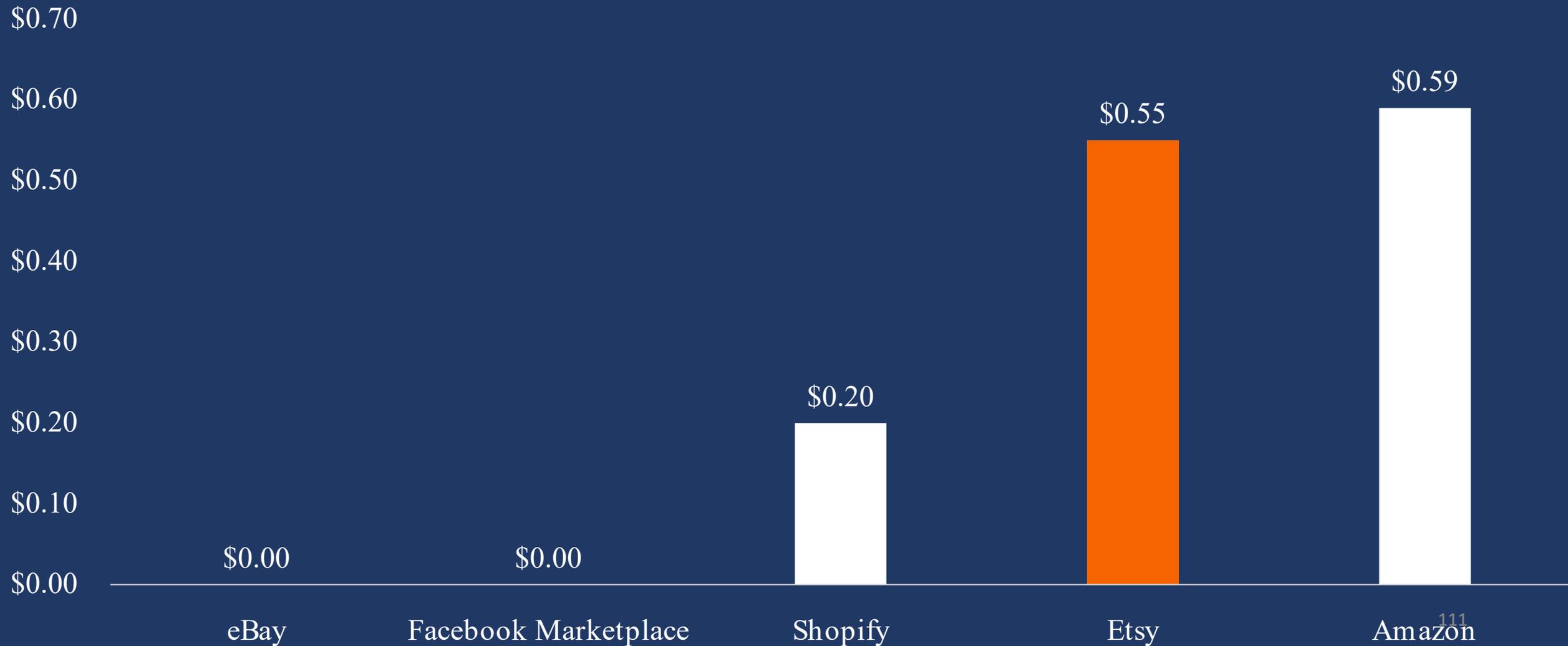
# Return on Capital Employed



# Competitor Net Income Unadjusted



# Payment Processing Fee If Seller Has A \$10 Transaction



# Payment Processing Fees

- Etsy
  - 3.0% of Transaction + \$0.25 Fee
- Amazon
  - 2.9% of Transaction + \$0.30 Fee
- Shopify
  - 2.0% Fee
- Facebook Marketplace
  - Built-In to Sales Fee
- eBay
  - Built-In to Sales Fee

# Sources Cited

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Dunlop, Sean. Morningstar Equity Analyst Report: Etsy Inc. 22 Nov. 2021, Morningstar, Morningstar.com. Accessed 24 Jan. 2022.

Kastrenakes, Jacob. “Etsy Is Trying to Get Bigger, and It’s Pushing Away Small Sellers.” The Verge, 13 Mar. 2020, <https://www.theverge.com/2020/3/13/21173710/etsy-seller-complaints-advertising-program-revenue-growth-sales>. Accessed 1 Feb. 2022.

“How Etsy Search Works”, “Marketing & Promotions.” Etsy Inc, 1 Jan. 2022, <https://help.etsy.com/hc/en-us/articles/115015745428-How-Etsy-Search-Works?segment=selling>. Accessed 1 Feb. 2022.

# Obligation Ratio

(+) Long-Term Debt :	\$ 2,274
(+) Short-Term Debt :	\$ 9
(+) Leases *7 :	\$ 60.1
(+) Pension Shortfall :	\$0
(+) Preferred Stock :	\$0
(-) Cash Assets :	\$817
<hr/>	
(=) Net Income :	\$480

Obligation Ratio : 3.18 Years < 5

(+) Long-Term Debt :	\$ 7,727
(+) Short-Term Debt :	\$ 1,335
(+) Leases *7 :	\$ 1,281
(+) Pension Shortfall :	\$0
(+) Preferred Stock :	\$0
(-) Cash Assets :	\$5282
<hr/>	
(=) Net Income :	2,541

Obligation Ratio : 1.99 Years < 5

(+) Long-Term Debt :	\$ 910.4
(+) Short-Term Debt :	\$ 0
(+) Leases *7 :	\$ 164.5
(+) Pension Shortfall :	\$ 0
(+) Preferred Stock :	\$ 0
(-) Cash Assets :	\$ 7518
<hr/>	
(=) Net Income :	\$491.3

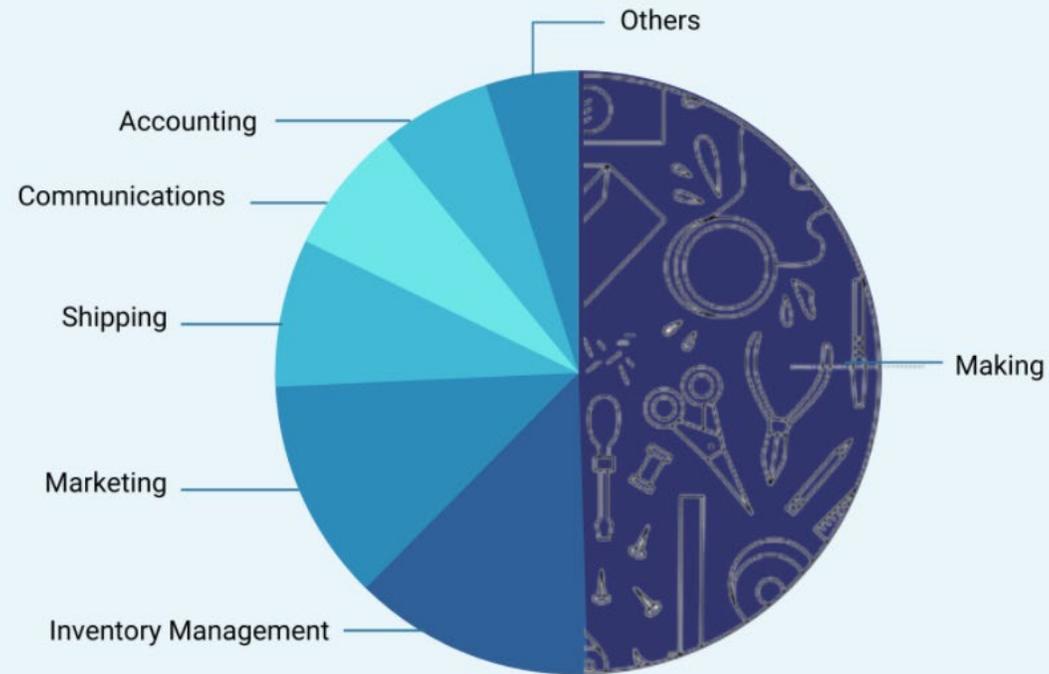
Obligation Ratio : -13.11 Years < 5

Etsy

ebay



## How an Etsy Seller Spends Her Time



2020 Seller Survey



# Other Competitors



SQUARESPACE

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED (#)	PERCENTAGE OF CLASS BENEFICIALLY OWNED (%)
<b>Named Executive Officers, Directors &amp; Director Nominees:</b>		
Gary S. Briggs <sup>(1)</sup>	25,174	*
M. Michele Burns <sup>(2)</sup>	48,529	*
Edith W. Cooper <sup>(3)</sup>	25,174	*
Mike Fisher <sup>(4)</sup>	33,660	*
Rachel Glaser <sup>(5)</sup>	217,993	*
Jonathan D. Klein <sup>(6)</sup>	60,905	*
Kruti Patel Goyal <sup>(7)</sup>	96,259	*
Melissa Reiff <sup>(8)</sup>	22,284	*
Ryan Scott	918	*
Josh Silverman <sup>(9)</sup>	3,064,097	2.4
Margaret M. Smyth <sup>(10)</sup>	60,982	*
Fred Wilson <sup>(11)</sup>	549,043	*
All current executive officers, directors and director nominees, as a group (14 persons) <sup>(12)</sup>	4,352,841	3.3
<b>5% Stockholders:</b>		
BlackRock, Inc. <sup>(13)</sup>	9,701,405	7.7
T. Rowe Price Associates, Inc. <sup>(14)</sup>	8,234,991	6.5
BlackRock Fund Advisors <sup>(15)</sup>	18,888,885	14.9

## Overview of 2021 Compensation Decisions

Since our 2017 business and management team transformation, Etsy has experienced a significant turn-around under Mr. Silverman's leadership, including:

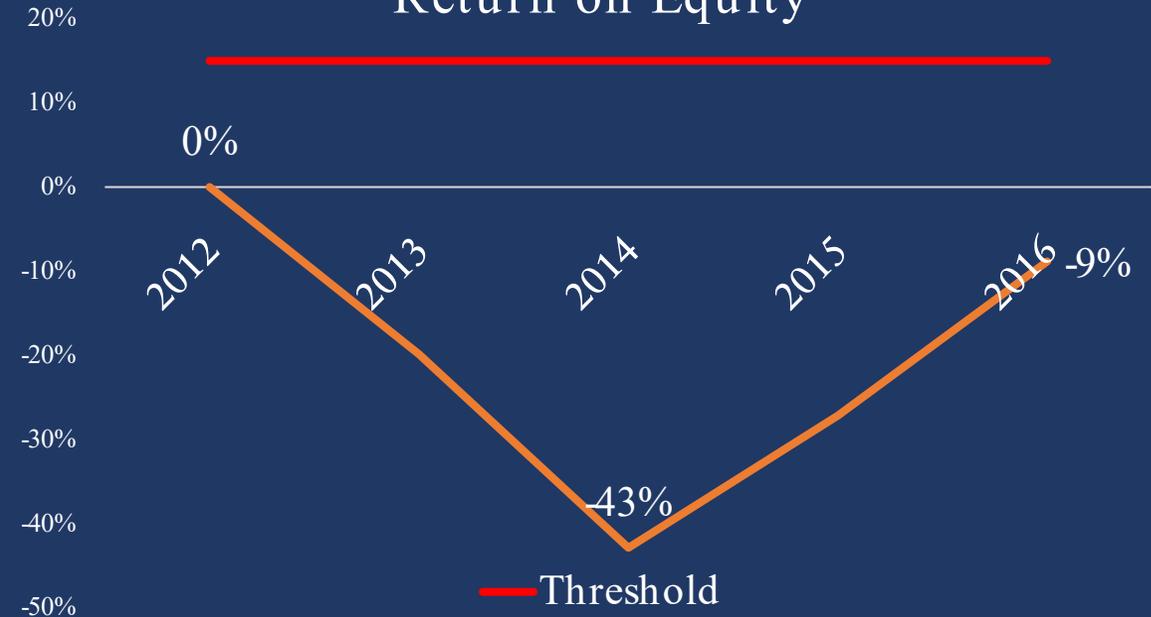
- GMS grew from \$3.3 billion in 2017 to approximately \$10.3 billion in 2020, representing a 47% compound annual growth rate over the period;
- Revenue grew from \$441 million in 2017 to \$1.7 billion in 2020, representing a 58% compound annual growth rate over the period;
- Net income grew from \$82 million in 2017 to \$349.2 million in 2020, representing 62% compound annual growth rate over the period;
- Non-GAAP adjusted EBITDA grew from \$80 million in 2017 to \$549.1 million in 2020, representing a 90% compound annual growth rate over the period; and
- Etsy was admitted to the S&P 500 in 2020.

Mr. Silverman with three key objectives: (1) recognize Mr. Silverman's unique and significant contributions to Etsy over the past four years, (2) retain Mr. Silverman's services for the foreseeable future, and (3) provide further motivation to Mr. Silverman, using long-term performance incentives, to ensure the continued growth and success of Etsy by creating long-term sustainable value for our stockholders.

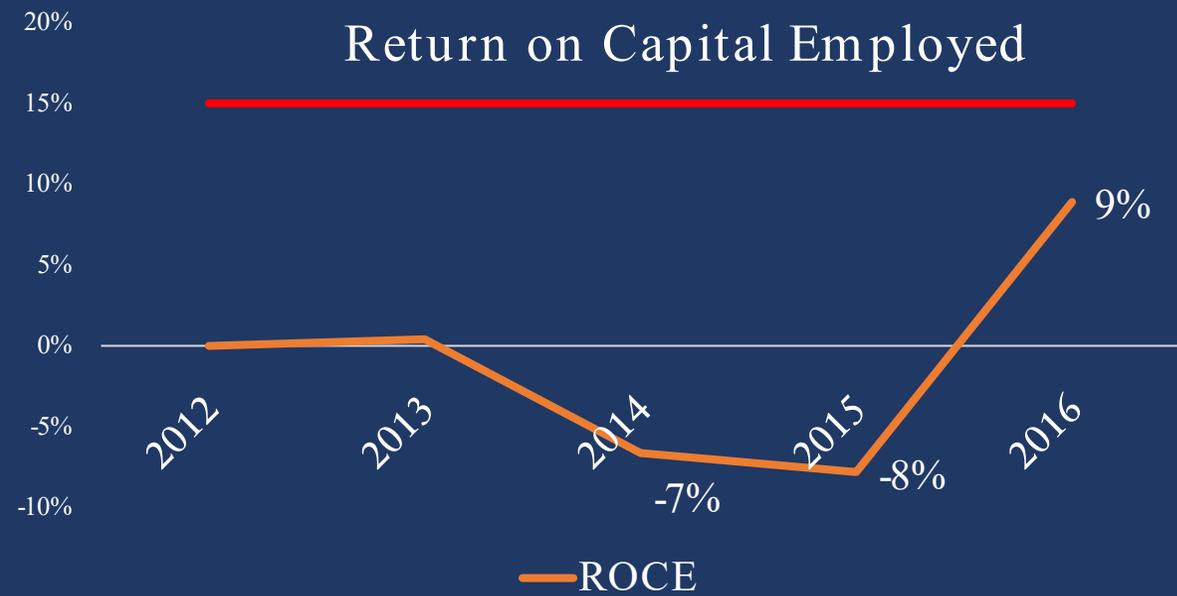
# Schedule of Debt Maturities

	<u>Total</u>	<u>Less than 1 Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>More than 5 Years</u>
	(in thousands)				
Finance lease obligations, including imputed interest	\$ 60,090	\$ 10,661	\$ 21,714	\$ 21,435	\$ 6,280
Operating lease obligations, including imputed interest	24,046	5,343	9,750	7,008	1,945
Debt obligations	1,343,915	2,635	41,280	—	1,300,000
Interest payments	10,579	1,641	3,250	3,250	2,438
Purchase obligations	44,934	7,551	37,383	—	—
Total contractual obligations	<u>\$ 1,483,564</u>	<u>\$ 27,831</u>	<u>\$ 113,377</u>	<u>\$ 31,693</u>	<u>\$ 1,310,663</u>

### Return on Equity

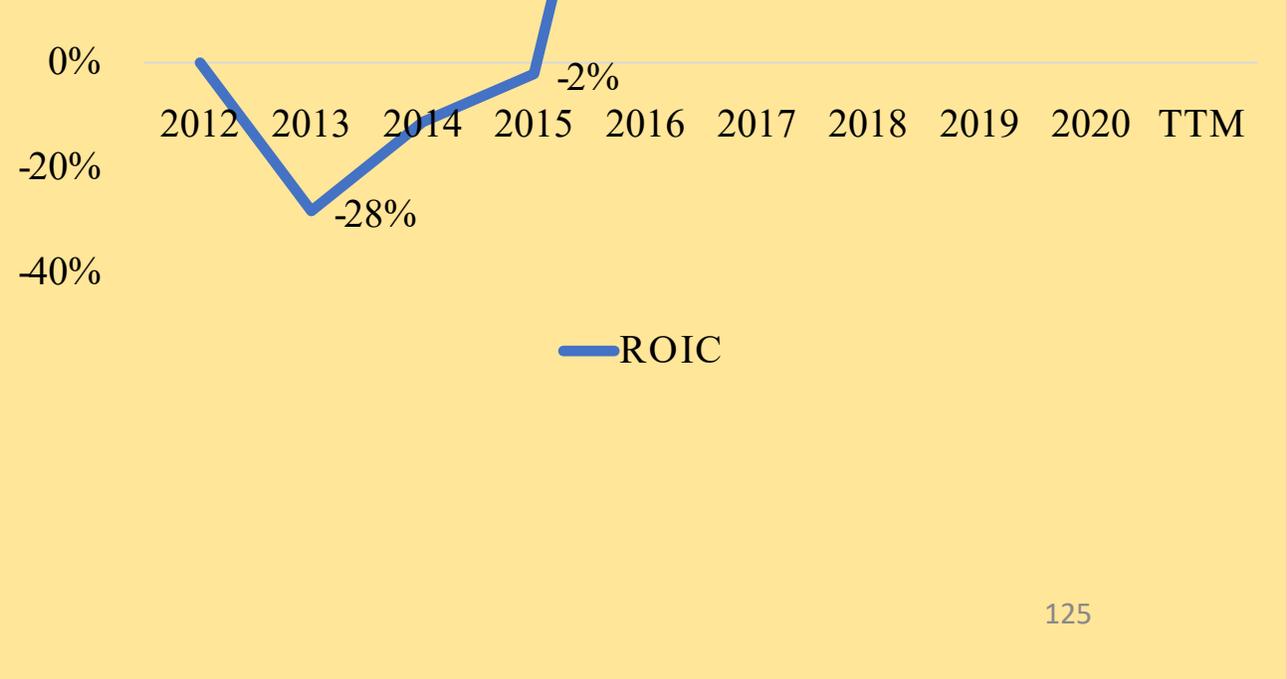
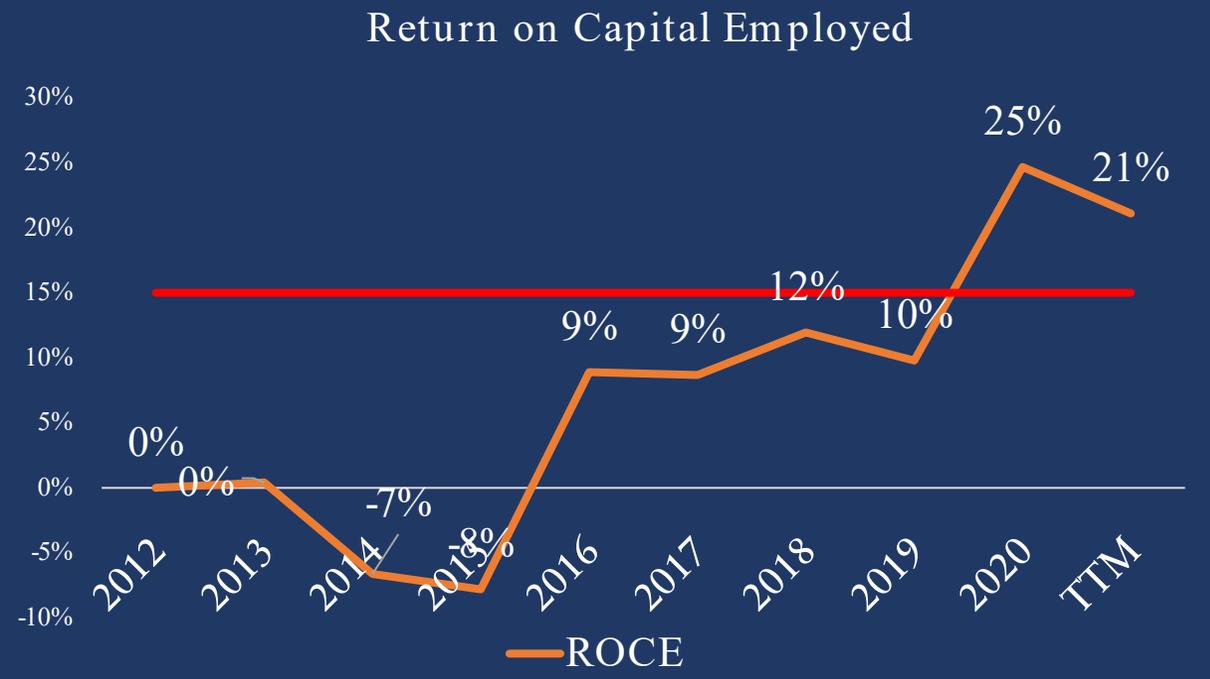
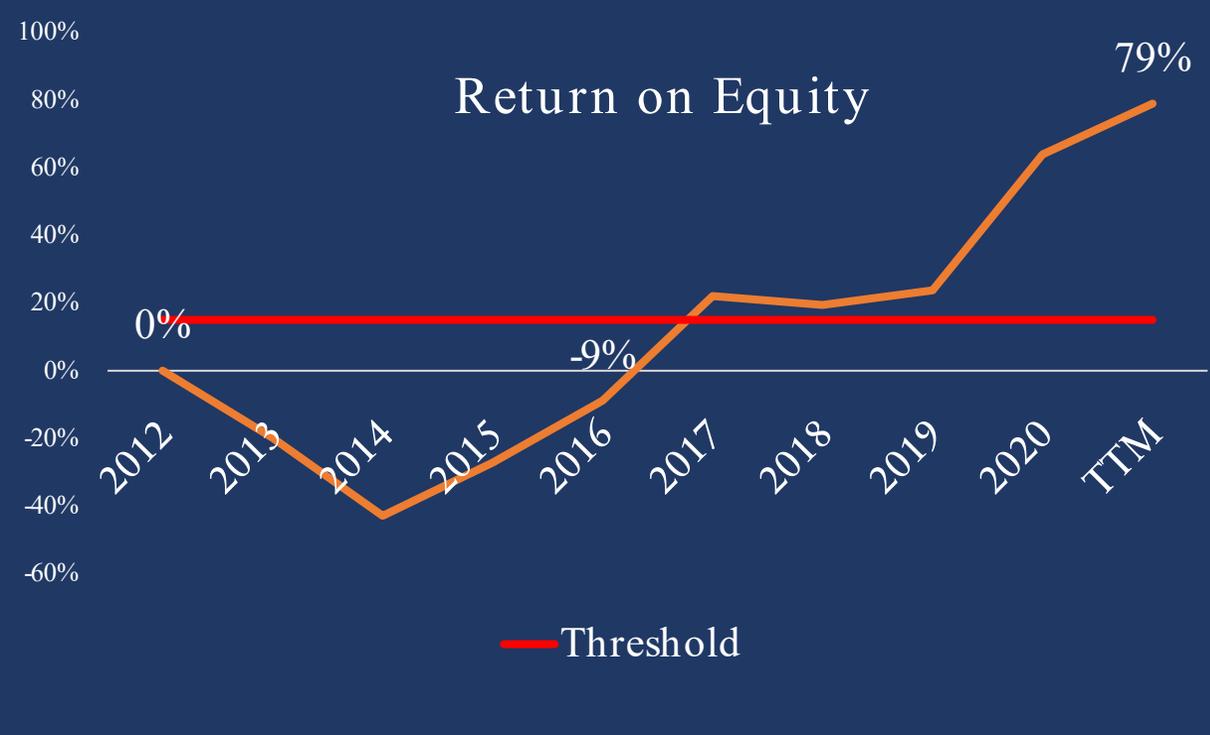


### Return on Capital Employed



### Return on Invested Capital

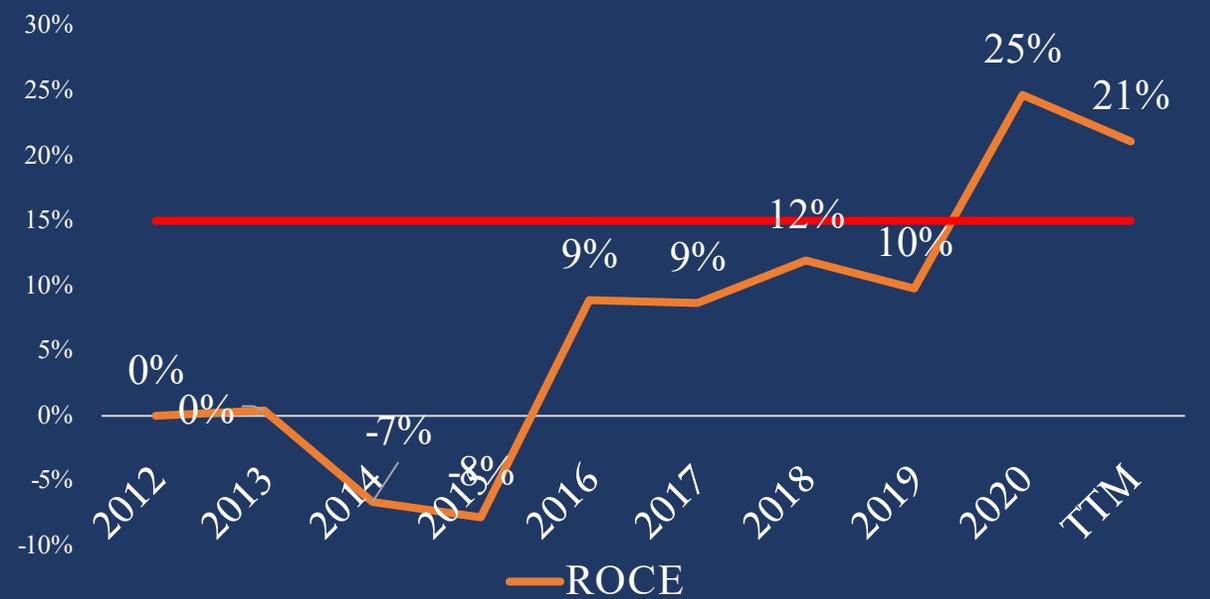




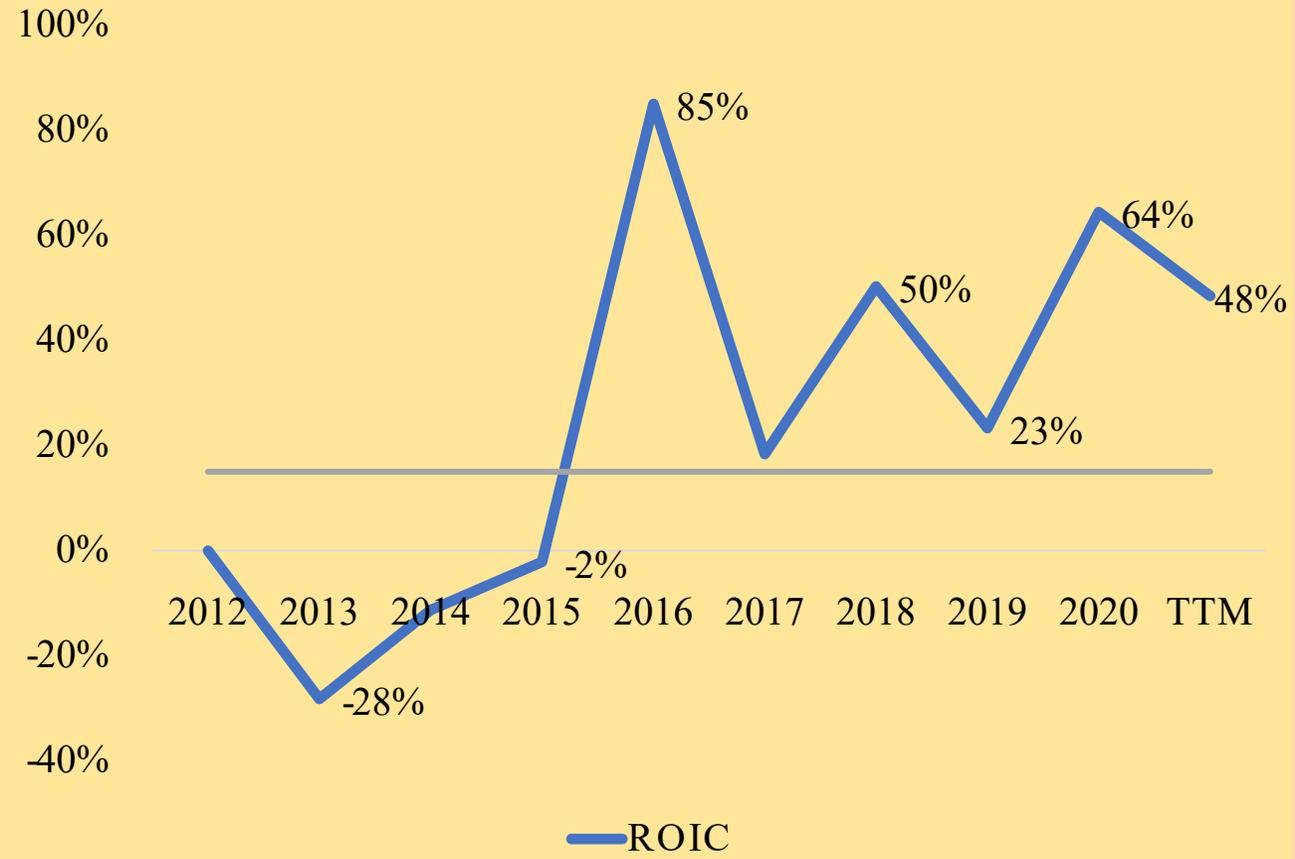
### Return on Equity



### Return on Capital Employed



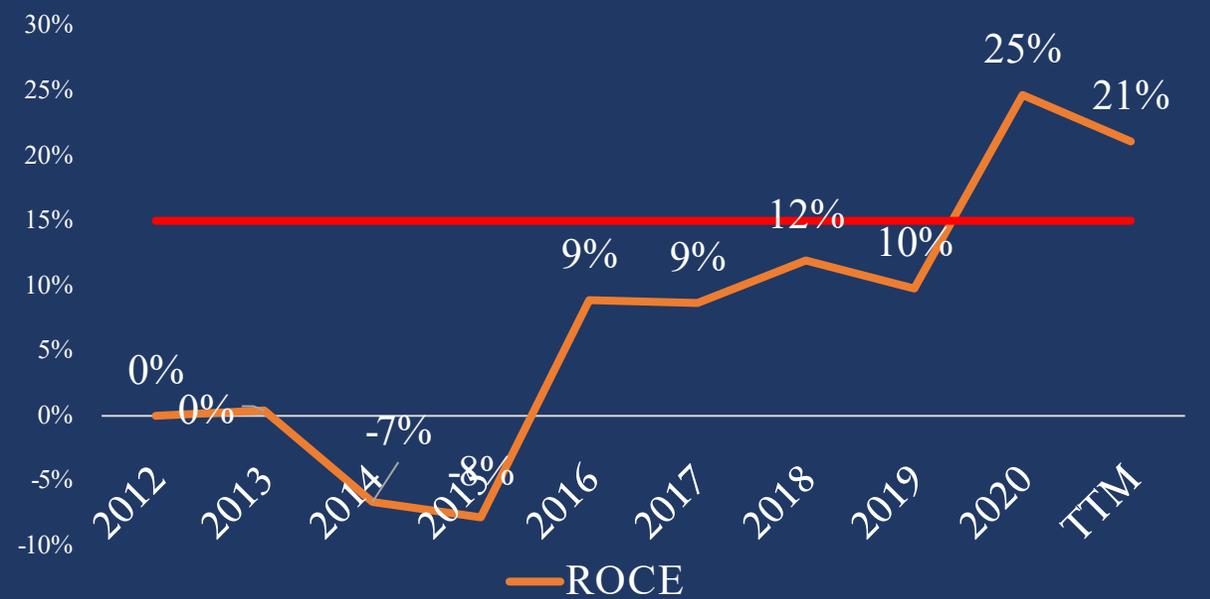
### Return on Invested Capital



### Return on Equity



### Return on Capital Employed



### Return on Invested Capital

